BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of Kansas Gas Service Compliance Docket No. 11-KGSG-820-CPL, as Established in Docket No. 06-GIMX-181-GIV.	)))	Docket No. 11-KGSG-820-CPL

PUBLIC (REDACTED)
KANSAS GAS SERVICE'S ANNUAL RING-FENCING COMPLIANCE FILING

Kansas Gas Service, a division of ONE Gas, Inc. ("Kansas Gas Service" or "Company"), in compliance with the State Corporation Commission of the State of Kansas' ("Commission") *Order Adopting Report of Staff and Active Participating Utilities and Approving Procedure for Filing Information*, issued on December 3, 2010 in Docket No. 06-GIMX-181-GIV (hereafter, "Order"), respectfully files its annual Ring-Fencing Compliance Report ("Report"). In support thereof, Kansas Gas Service states the following to the Commission:

1. Kansas Gas Service is a natural gas public utility operating in the state of Kansas pursuant to certificates of convenience and necessity issued by the Commission. Kansas Gas Service's principal place of business within the state of Kansas is located at: 7421 West 129th Street, Overland Park, Kansas 66213.

2. Pursuant to the Order, annually on or before May 31st, Kansas Gas Service is required to submit certain documents and schedules in conformity with the agreed upon procedures set forth in the *Report of the Commission Staff and the Active Participating Utilities*, as filed on October 28, 2010, (hereafter referred to as "Recommendation") and subsequently adopted by the Commission in its Order. Accordingly, please find Kansas Gas Service's annual Report attached hereto as "KGS PUBLIC REDACTED Exhibit A." Pursuant to K.S.A. 66-1220a and K.A.R. 82-1-221a, the Company has labeled parts of this Report as "Confidential" to protect the non-public proprietary business information contained within the Report in accordance with the Recommendation. Disclosure of this proprietary business information is not in the public interest

and may cause irreparable harm to the Company and/or its customers. Kansas Gas Service respectfully requests the Commission and its Staff deem and treat this information as Confidential as provided by Kansas law.

WHEREFORE, Kansas Gas Service respectfully requests the Commission accept this compliance filing, and for any other such relief as the Commission deems just and reasonable.

Respectfully submitted,

/s/ Robert Elliott Vincent
Robert Elliott Vincent, KS Bar #26028
Managing Attorney
Kansas Gas Service
A Division of ONE Gas, Inc.
7421 West 129th Street
Overland Park, Kansas 66213-2634
(913) 319-8615, telephone
(913) 319-8622, facsimile
robert.vincent@onegas.com

Attorney for Kansas Gas Service, a Division of ONE Gas, Inc.

KANSAS GAS SERVICE'S

2021 ANNUAL RINGFENCING REPORT

Pursuant to the agreement of the parties as expressed in the October 28, 2010, Report of the Commission Staff and the Active Participating Utilities, filed in Docket No. 06-GIMX-181-GIV, Kansas Gas Service, a Division of ONE Gas, Inc., hereby submits its annual Ringfencing Report ("Report") as follows:

KCC Requirement:

A. To ensure proper allocation or assignment of joint or common costs for non-power goods and services, so a regulated utility bears only its fair share of costs, the public utility shall submit the following information on an annual basis by May 31st:

   1. A Cost Allocation Manual (CAM) on a calendar year basis that:

      a. Explains the methodology used for all costs allocated or assigned for non-power goods and services provided by: (i) the regulated utility, (ii) a holding company, or (iii) a centralized corporate services subsidiary to any associate company that is a jurisdictional public utility;

      b. Demonstrates that all costs are allocated or assigned justly and reasonably and that the allocation or assignment of costs is not unduly discriminatory or preferential; and,

      c. If a fully distributed cost methodology is not used, an explanation supporting use of the alternative method of allocation.

   With respect to the CAM, it should be filed in the individual utility compliance docket, but if no changes are made to the CAM, a letter in place of the CAM indicating no changes have been made may be filed by the May 31st annual filing date. If the annual filing reflects changes made in the CAM, those changes should be noted and fully described.

   2. Any centralized corporate services subsidiary, within a holding company that includes a jurisdictional public utility, required to file FERC Form No. 60, shall file a copy with the Commission by May 31st of the calendar year following the year subject of the report.

KGS Response

A.

   1. The Cost Allocation Manual (CAM) submitted within Docket No. 11-KGSG-820-CPL is incorporated herein, by reference, since there have been no changes to the Manual since the last submission in 2020.

   2. Not Applicable

KCC Requirement

B. Each jurisdictional public utility shall provide annually by May 31st the following information using diagrams, schedules or narrative discussion as may be appropriate:

1. A complete detailed organization chart identifying each regulated utility and each associate company;

2. A detailed description of the activities and business conducted at each non-utility associate company;

3. An organizational chart of personnel that includes a list of all directors, corporate officers, and other key personnel shared by any jurisdictional public utility and any non-utility associate company or holding company, if any, along with a description of each person's duties and responsibilities to each entity;

4. Summaries of each mortgage, loan document and debt agreement, including a discussion of the type of collateral or security pledged to support the debt. The utility will also describe any loan or debt agreement taken out to finance an unregulated affiliate that encumbers utility property or cash-flow for security;

5. To the extent financial separations are maintained for either legal or financial accounting purposes and at a level in which financial statements are reasonably capable of being produced by the utility's accounting system, each jurisdictional public utility shall file income statements, balance sheets and cash flow statements for (1) consolidated utility operations; (2) consolidated non-regulated operations; and (3) consolidated corporate financials; and

6. To the extent financial separations are maintained for either legal or financial accounting purposes and at a level in which financial statements are reasonably capable of being produced by the utility's accounting system, each jurisdictional public utility shall file a summary of financial ratios as of the end of the last completed fiscal year, as described by way of example in the attachment to these rules and consistent with the method used to report such information to the principal bond rating agency or Standard & Poor's for (1) consolidated utility operations; (2) consolidated non-regulated operations; and (3) consolidated corporate financials.

KGS Response

B.

1. Please see the attached organization chart, containing KGS affiliated companies within ONE Gas, Inc. (ONE Gas) as of December 31, 2021, attached hereto as "Attachment B-1".
2. Please see Attachment B-2 for a description of associated companies.
3. Please see Attachment B-3 for a list of Officers and Directors.
4. Please see Attachment B-4 for a summary of debt agreements. There is no utility debt that encumbers utility property used to finance unregulated affiliates.

5. Please see the attached income statements and balance sheet information for ONE Gas which were included in the Fiscal 2021 10-K filing, attached here as “Attachment B-5”.
6. Please see the attached financial ratios for the consolidated utility operation, attached here to as “Attachment B-6”.

<u>KCC Requirement</u>

C. Each jurisdictional public utility shall provide to the Director of Utilities and the Chief of Accounting and Financial Analysis at the Commission concurrent with the filing of 8-K disclosures the following:

   1. Written or verbal notice of any affiliate of the jurisdictional public utility or holding company, if any, that has an affiliate that has defaulted on a material obligation or debt for the purpose of 8-K reporting.
   2. Written or verbal notice of any requests by any jurisdictional public utility or holding company, if any, for material waivers or amendments as provided for the purpose of 8-K reporting to debt agreements that secure, encumber, or finance any jurisdictional public utility’s assets.
   3. Each jurisdictional public utility shall file reports published by credit rating agencies and equity analysts regarding the utility’s regulated and unregulated business within 10 days after publication of the report and its receipt by the utility. A public utility shall not be required to file reports that the utility has not received, or reports that cannot be disseminated or reproduced because of copyright or contractual restrictions.
   4. A summary of any debt secured or encumbered, in any way, by the assets of any jurisdictional public utility on behalf of a non-utility affiliate or holding company, if any.

<u>KGS Response</u>

C.

1. KGS will provide written or verbal notice concurrently, in the event that any affiliate defaults on a material obligation or debt for the purpose of 8-K reporting. Neither ONE Gas, Inc. (ONE Gas) nor any of its affiliates, have defaulted on a material obligation or debt.
2. KGS will provide written or verbal notice of any requests by a jurisdictional public utility or holding company if it seeks a material waiver or amendments as provided for the purpose of 8-K reporting to debt agreements that secure, encumber, or finance any jurisdictional public utility’s assets. No such requests have been made.
3. Please see, “CONFIDENTIAL Attachment C-3”, for a copy of the credit reports. ONE Gas receives credit rating and equity analyst reports under an agreement with an outside vendor. According to the terms of the agreement, ONE Gas is prohibited from releasing these reports to third parties. ONE Gas obtained permission to provide a confidential copy of Moody’s Outlook Revision dated 02/15/2022, a confidential copy of Moody’s ONE Gas credit report dated 02/22/2022, a confidential copy of the S&P Ratings Bulletin dated 03/08/2022, a confidential

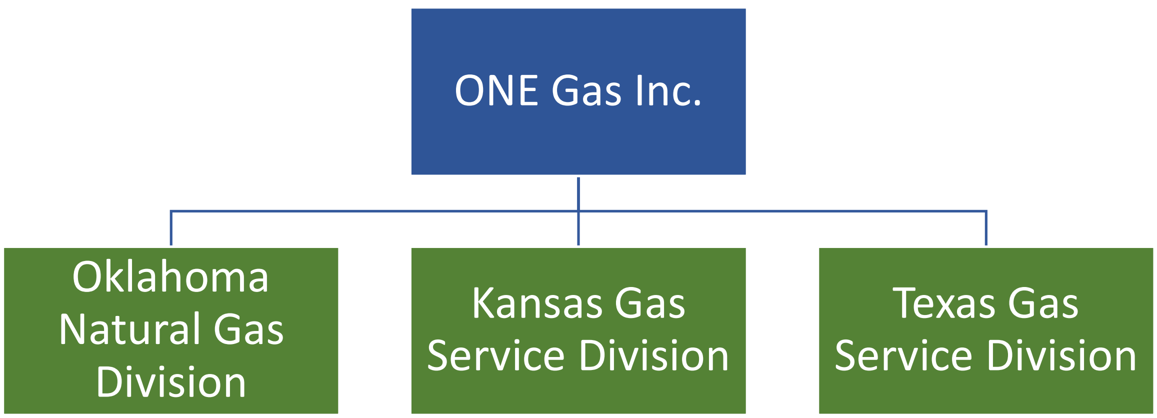
copy of S&P's ONE Gas credit report dated 04/19/2022 and a confidential copy of S&P's ONE Gas Outlook dated 05/11/2022.

Equity analysts covering ONE Gas include:

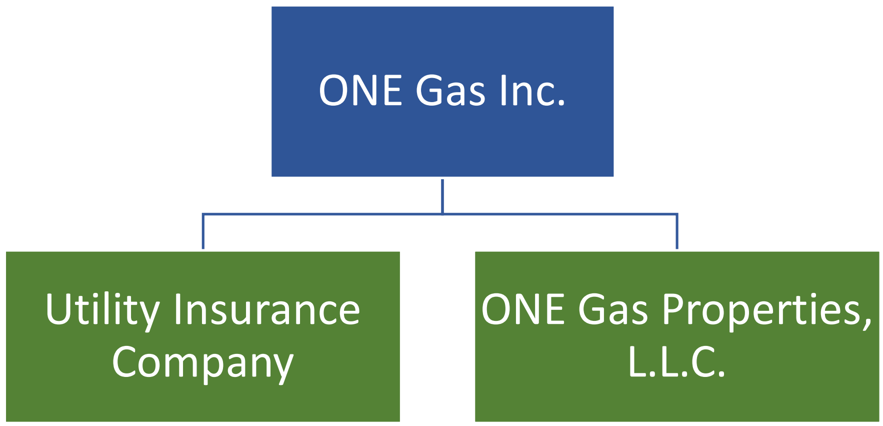
Bank of America Securities
Edward Jones
Guggenheim Partners
Mizuho Securities USA
Morgan Stanley
Sidoti & Company
Stifel
Value Line
Wells Fargo

4. ONE Gas does not have any debt issuances that are secured or encumbered with the assets of KGS.

ONE Gas, Inc.
Regulated Operating Divisions



ONE Gas, Inc.
Affiliated Companies



ONE Gas, Inc.
Company Descriptions

ONE Gas Associated Company Description:

ONE Gas Foundation, Inc. is an Oklahoma not-for-profit corporation. The entity is a charitable foundation exempt under Section 501(c)(3) of the Internal Revenue Code.

ONE Gas Affiliated Company Descriptions:

Utility Insurance Company is wholly owned by ONE Gas. UIC provides ONE Gas' distribution companies, Kansas Gas Service, Oklahoma Natural Gas and Texas Gas Service, insurance coverage. UIC is regulated by the Oklahoma Insurance Department.

ONE Gas Properties, L.L.C. is an Oklahoma limited liability company. The entity owns intellectual property including the ONE Gas logo and the trade names Kansas Gas Service, Oklahoma Natural Gas and Texas Gas Service. ONE Gas Properties, L.L.C. charges ONG, KGS and TGS a monthly royalty fee for the use of the intellectual properties it owns.

ONE GAS, INC.
DIRECTOR & OFFICER LIST
December 31, 2021

<u>ONE Gas, Inc.</u> (Oklahoma)
(Formed 8/30/13)

<u>Directors</u>
John W. Gibson, Chairman
Robert S. McAnnally
Robert B. Evans
Tracy E. Hart
Michael G. Hutchinson
Pattye L. Moore
Eduardo A. Rodriguez
Douglas H. Yaeger

<u>Positions Appointed by OGS Board</u>

Robert S. McAnnally	President and Chief Executive Officer
Caron A. Lawhorn	Senior Vice President and Chief Financial Officer
Joseph L. McCormick	Senior Vice President, General Counsel and Assistant Secretary
Curtis L. Dinan	Senior Vice President and Chief Operating Officer
Mark A. Bender	Senior Vice President, Administration and Chief Information Officer
Brian K. Shore	Vice President, Associate General Counsel and Secretary
Julie A. White	Vice President, Communications and Inclusion and Diversity
Jeffrey J. Husen	Vice President, Chief Accounting Officer and Controller
Mark W. Smith	Vice President, Treasurer

<u>Positions Appointed by OGS CEO</u>

W. Kent Shortridge	Managing Vice President, Field Operations
Jim Jarrett	Vice President, Operations, Oklahoma Natural Gas
Sean C. Postlethwait	Vice President, Operations, Kansas Gas Service
Shantel H. Norman	Vice President, Operations, Texas Gas Service
Ronald D. Bridgewater	Vice President, System Integrity
Todd R. Hohn	Vice President, Environmental, Safety & Health
Brian Burke	Vice President, Customer Service
Jeff Johns	Vice President, Resource Management
James E. Langster	Vice President, Information Technology
Jason Ketchum	Vice President, Commercial Activities
Christopher Sighinolfi	Vice President, Corporate Development

<u>ONE GAS PROPERTIES, L.L.C.</u>
(Oklahoma Corp., Formed 10/30/13, OGS Sole Member)

Robert S. McAnnally	Chairman, President and Chief Executive Officer
Caron A. Lawhorn	Senior Vice President and Chief Financial Officer
Joseph L. McCormick	Senior Vice President, General Counsel and Assistant Secretary
Curtis L. Dinan	Senior Vice President and Chief Operating Officer
Mark A. Bender	Senior Vice President, Administration and Chief Information Officer
Jeffrey J. Husen	Vice President, Chief Accounting Officer and Controller
Mark W. Smith	Vice President and Treasurer
Brian K. Shore	Vice President, Associate General Counsel and Secretary
Julie A. White	Vice President, Communications and Inclusion and Diversity

ONE GAS, INC.
DIRECTOR & OFFICER LIST
December 31, 2021

ONE GAS FOUNDATION, INC.
(Oklahoma Not for Profit Corporation, Formed 11/18/13)

Directors/Trustees	
Robert S. McAnnally	Director
Curtis L. Dinan	Director
Caron A. Lawhorn	Director
Joseph L. McCormick	Director
Mark A. Bender	Director
Brian K. Shore	Director
Julie A. White	Director

Officers:	
Robert S. McAnnally	Chairman, Chief Executive Officer and President
Caron A. Lawhorn	Senior Vice President and Chief Financial Officer
Joseph L. McCormick	Senior Vice President, General Counsel and Assistant Secretary
Brian K. Shore	Vice President, Associate General Counsel & Secretary

UTILITY INSURANCE COMPANY
(Oklahoma Corporation, Formed 8/29/17)

Directors	
Robert S. McAnnally	Director
Curtis L. Dinan	Director
Caron A. Lawhorn	Director
Joseph L. McCormick	Director

Officers:	
Robert S. McAnnally	Chairman, Chief Executive Officer and President
Caron A. Lawhorn	Senior Vice President and Chief Financial Officer
Joseph L. McCormick	Senior Vice President, General Counsel and Assistant Secretary
Brian K. Shore	Vice President, Associate General Counsel & Secretary
Mark W. Smith	Vice President and Treasurer

ONE Gas, Inc.

Maturity	2023	2023	2024	2024	2030	2044	2048	5-Year Credit Agreement	Indenture - US Bank
Issue Date	3/11/21	3/11/21	3/11/21	1/27/14	5/4/20	1/27/14	11/5/18	3/16/22	1/27/14
Maturity Date	3/11/23	3/11/23	3/11/24	2/1/24	5/15/30	2/1/44	11/1/48	3/16/27	-
Rate	0.85%	Floating (three-month LIBOR + 61 bps)	1.10%	3.61%	2.00%	4.66%	4.50%	Term SOFR plus 1% Prime, or Fed Funds plus 0.5%	-
Principal	$1,000,000,000	$800,000,000 ($400M outstanding)	$700,000,000	$300,000,000	$300,000,000	$600,000,000	$400,000,000	$1,000,000,000	-
Annual Interest	$8,500,000		$7,700,000	$10,830,000	$6,000,000	$27,948,000	$18,000,000	$1,000,000 (Facility Fee)	-
Payments	3/11, 9/11	3/11, 6/11, 9/11, 12/11	3/11, 9/11	2/1, 8/1	5/1, 11/1	2/1, 8/1	5/1, 11/1	-	-
CUSIP	68235PAJ7	68235PAK4	68235PAL2	68235PAE8	68235PAH1	68235PAF5	68235PAG3		-
Trustee	US Bank	US Bank	US Bank	US Bank	US Bank	US Bank	US Bank	BOA (Administrative Agent)	-
Lead Bank(s)	BOA / JPM / Mizuho / RBC / Truist / US Bank / Wells Fargo	BOA / JPM / Mizuho / RBC / Truist / US Bank / Wells Fargo	BOA / JPM / Mizuho / RBC / Truist / US Bank / Wells Fargo	Morgan Stanley JPM / BOA / RBS	BOA Mizuho	Morgan Stanley JPM / BOA / RBS	US Bank JPM	JPM / Mizuho / RBC / Truist / US Bank / Wells Fargo	US Bank
Callable	anytime after 9/11/21	anytime after 9/11/21	anytime after 9/11/21	anytime prior to 11/1/2023	anytime prior to 2/15/30	anytime prior to 8/1/2043	anytime prior to 5/1/2048	-	-
Premium	None	None	None	None	None	None	None	-	-
Indenture	3/11/21	3/11/21	3/11/21	1/27/14	5/4/20	1/27/14	11/5/18	-	-
Filing	Same as Indenture (Annual compliance cert)	Same as Indenture (Annual compliance cert)	Same as Indenture (Annual compliance cert)	Same as Indenture (Annual compliance cert)	Same as Indenture (Annual compliance cert)	Same as Indenture (Annual compliance cert)	Same as Indenture (Annual compliance cert)	Compliance Certificates	Comp Certificates Certain SEC filings
Events of Def	Fail to pay Int/Princ/Prem Interest: 30 days Covenants: 90 days Def on Agmt>$100MM Bankruptcy, Reorganization	Fail to pay Int/Princ/Prem Interest: 30 days Covenants: 90 days Def on Agmt>$100MM Bankruptcy, Reorganization	Fail to pay Int/Princ/Prem Interest: 30 days Covenants: 90 days Def on Agmt>$100MM Bankruptcy, Reorganization	Fail to pay Int/Princ/Prem Interest: 30 days Covenants: 90 days Def on Agmt>$100MM Bankruptcy, Reorganization	Fail to pay Int/Princ/Prem Interest: 30 days Covenants: 90 days Def on Agmt>$100MM Bankruptcy, Reorganization	Fail to pay Int/Princ/Prem Interest: 30 days Covenants: 90 days Def on Agmt>$100MM Bankruptcy, Reorganization	Fail to pay Int/Princ/Prem Interest: 30 days Covenants: 90 days Def on Agmt>$100MM Bankruptcy, Reorganization	CF Events of Default (Sec 8.01)	See Indenture Events of Default
Limitations on Liens	Liens Language 4	Liens Language 4	Liens Language 4	Liens Language 1	Liens Language 3	Liens Language 1	Liens Language 2	See CF Covenants (Sec 7.01)	See Indenture Limitation on Liens
Lim on S/L	S/L Language 4	S/L Language 4	S/L Language 4	S/L Language 1	S/L Language 3	S/L Language 1	S/L Language 2	None	See Indenture Limitation on SaleLeaseback
Amendments, Supplements and Waivers	ASW 4	ASW 4	ASW 4	ASW 1	ASW 3	ASW 1	ASW 2	None	See each note
Defeasance	Defeasance Language 4	Defeasance Language 4	Defeasance Language 4	Defeasance Language 1	Defeasance Language 3	Defeasance Language 1	Defeasance Language 2	None	See each note
Covenants	See Covenants 4	See Covenants 4	See Covenants 4	See Covenants 1	See Covenants 3	See Covenants 1	See Covenants 2	See CF Covenants (Sec 6.01 - 7.09)	See Indenture Covenants

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of ONE Gas, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of ONE Gas, Inc. and its subsidiaries (the "Company") as of December 31, 2021 and 2020, and the related consolidated statements of income, of comprehensive income, of equity and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Accounting for the Effects of New, or Changes in Existing, Rate Regulation

As described in Notes 1 and 10 to the consolidated financial statements, total regulatory assets and total regulatory liabilities were approximately $2.3 billion and $561 million, respectively, as of December 31, 2021. The Company is subject to rate regulation and accounting requirements of regulatory authorities in the states in which it operates, and it follows the accounting and reporting guidance for regulated operations. As disclosed by management, regulatory assets are recorded for costs that have been deferred for which future recovery through customer rates is considered probable and regulatory liabilities are recorded when it is probable that revenues will be reduced for amounts that will be credited to customers through the ratemaking process. As a result, certain costs that would normally be expensed under accounting principles generally accepted in the United States of America for non-regulated entities are capitalized or deferred on the balance sheet because it is probable they can be recovered through rates. The amounts to be recovered or recognized are based upon historical experience and management's understanding of regulations and may be affected by decisions of the regulatory authorities or the issuance of new regulations.

The principal considerations for our determination that performing procedures relating to the Company's accounting for the effects of rate regulation is a critical audit matter are the significant judgment by management when assessing the impact of regulation on accounting for new and existing regulatory assets and liabilities, which in turn led to significant auditor judgment and subjectivity in performing procedures and evaluating audit evidence related to the accounting for the impact of regulatory proceedings on new and existing regulatory assets and liabilities.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the assessment of new rate regulation or changes to existing regulation, including controls over management's process for evaluating and recording (i) deferred costs, including the amounts to be deferred and the future recovery, resulting in regulatory assets or (ii) a reduction to revenues for amounts that will be credited to customers resulting in regulatory liabilities. These procedures also included, among others, (i) obtaining and evaluating regulatory rate orders, including correspondence between the Company and regulators, (ii) assessing the reasonableness of management's judgments regarding new or updated regulatory guidance and proceedings and the related accounting implications, and (iii) testing regulatory assets and liabilities based on provisions and formulas outlined in regulatory orders and other correspondence.

/s/ PricewaterhouseCoopers LLP

Tulsa, Oklahoma
February 24, 2022

We have served as the Company's auditor since 2013.

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ONE Gas, Inc.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2021	**2020**	**2019**
	(Thousands of dollars, except per share amounts)		
Total revenues	**$ 1,808,597**	$ 1,530,268	$ 1,652,730
Cost of natural gas	**775,006**	537,445	687,974
Operating expenses			
Operations and maintenance	**449,676**	431,115	429,126
Depreciation and amortization	**207,233**	194,881	180,395
General taxes	**66,424**	63,311	59,977
Total operating expenses	**723,333**	689,307	669,498
Operating income	**310,258**	303,516	295,258
Other expense, net	**(3,207)**	(3,020)	(2,976)
Interest expense, net	**(60,301)**	(62,505)	(62,681)
Income before income taxes	**246,750**	237,991	229,601
Income taxes	**(40,316)**	(41,579)	(42,852)
Net income	**$ 206,434**	$ 196,412	$ 186,749
Earnings per share			
Basic	**$ 3.85**	$ 3.70	$ 3.53
Diluted	**$ 3.85**	$ 3.68	$ 3.51
Average shares (*thousands*)			
Basic	**53,575**	53,133	52,895
Diluted	**53,674**	53,370	53,240
Dividends declared per share of stock	**$ 2.32**	$ 2.16	$ 2.00

See accompanying Notes to Consolidated Financial Statements.

ONE Gas, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2021	**2020**	**2019**
	(Thousands of dollars)		
Net income	**$ 206,434**	$ 196,412	$ 186,749
Other comprehensive income (loss), net of tax			
Change in pension and other postemployment benefit plans liability, net of tax of $(379), $289, and $479, respectively	**1,250**	(1,038)	(1,435)
Total other comprehensive income (loss), net of tax	**1,250**	(1,038)	(1,435)
Comprehensive income	**$ 207,684**	$ 195,374	$ 185,314

See accompanying Notes to Consolidated Financial Statements.

ONE Gas, Inc.

CONSOLIDATED BALANCE SHEETS

	December 31, 2021	December 31, 2020
Assets	*(Thousands of dollars)*	
Property, plant and equipment		
Property, plant and equipment	**$ 7,274,268**	$ 6,838,603
Accumulated depreciation and amortization	**2,083,433**	1,971,546
Net property, plant and equipment	**5,190,835**	4,867,057
Current assets		
Cash and cash equivalents	**8,852**	7,993
Accounts receivable, net	**341,756**	292,985
Materials and supplies	**54,892**	52,766
Natural gas in storage	**179,646**	93,946
Regulatory assets	**1,611,676**	56,773
Other current assets	**27,742**	35,406
Total current assets	**2,224,564**	539,869
Goodwill and other assets		
Regulatory assets	**724,862**	366,956
Goodwill	**157,953**	157,953
Other assets	**103,906**	96,877
Total goodwill and other assets	**986,721**	621,786
Total assets	**$ 8,402,120**	$ 6,028,712

See accompanying Notes to Consolidated Financial Statements.

ONE Gas, Inc.

CONSOLIDATED BALANCE SHEETS

(Continued)

	December 31, 2021	December 31, 2020
Equity and Liabilities	*(Thousands of dollars)*	
Equity and long-term debt		
Common stock, $0.01 par value: authorized 250,000,000 shares; issued and outstanding 53,633,210 shares at December 31, 2021; issued and outstanding 53,166,733 shares at December 31, 2020	**$ 536**	$ 532
Paid-in capital	**1,790,362**	1,756,921
Retained earnings	**565,161**	483,635
Accumulated other comprehensive loss	**(6,527)**	(7,777)
Total equity	**2,349,532**	2,233,311
Long-term debt, excluding current maturities, and net of issuance costs of $12,418 and $13,159, respectively	**3,683,378**	1,582,428
Total equity and long-term debt	**6,032,910**	3,815,739
Current liabilities		
Notes payable	**494,000**	418,225
Accounts payable	**258,554**	152,313
Accrued taxes other than income	**67,035**	63,800
Regulatory liabilities	**8,090**	15,761
Customer deposits	**62,454**	68,028
Other current liabilities	**90,360**	78,952
Total current liabilities	**980,493**	797,079
Deferred credits and other liabilities		
Deferred income taxes	**695,284**	656,806
Regulatory liabilities	**552,928**	547,563
Employee benefit obligations	**35,226**	97,637
Other deferred credits	**105,279**	113,888
Total deferred credits and other liabilities	**1,388,717**	1,415,894
Commitments and contingencies		
Total liabilities and equity	**$ 8,402,120**	$ 6,028,712

See accompanying Notes to Consolidated Financial Statements.

ONE Gas, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2021	**2020**	**2019**
	(Thousands of dollars)		
Operating activities			
Net income	**$ 206,434**	$ 196,412	$ 186,749
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**207,233**	194,881	180,395
Deferred income taxes	**43,449**	18,485	13,307
Share-based compensation expense	**10,498**	9,803	9,314
Provision for doubtful accounts	**9,131**	15,450	8,994
Changes in assets and liabilities:			
Accounts receivable	**(57,902)**	(58,423)	30,415
Materials and supplies	**(2,126)**	2,966	(11,399)
Natural gas in storage	**(85,700)**	10,313	3,036
Asset removal costs	**(49,029)**	(40,833)	(47,784)
Accounts payable	**107,207**	28,376	(59,293)
Accrued taxes other than income	**3,235**	15,844	316
Customer deposits	**(5,574)**	10,041	(3,196)
Regulatory assets and liabilities - current	**(1,562,574)**	(38,773)	3,787
Regulatory assets and liabilities - non-current	**(367,210)**	23,648	24,416
Employee benefit obligation	—	(3,109)	(35,401)
Other assets and liabilities - current	**18,461**	(12,877)	7,173
Other assets and liabilities - non-current	**(11,190)**	(7,704)	(484)
Cash provided by (used in) operating activities	**(1,535,657)**	364,500	310,345
Investing activities			
Capital expenditures	**(495,246)**	(471,345)	(417,322)
Other investing expenditures	**(7,554)**	(2,804)	(7,009)
Other investing receipts	**1,717**	3,777	1,399
Cash used in investing activities	**(501,083)**	(470,372)	(422,932)
Financing activities			
Borrowings (repayment) on notes payable, net	**75,775**	(98,275)	217,000
Issuance of debt, net of discounts	**2,498,895**	298,428	—
Long-term debt financing costs	**(35,110)**	(2,885)	—
Issuance of common stock	**26,662**	19,383	5,116
Repayment of long-term debt	**(400,000)**	—	—
Dividends paid	**(123,912)**	(114,372)	(105,424)
Tax withholdings related to net share settlements of stock compensation	**(4,711)**	(6,267)	(7,575)
Cash provided by financing activities	**2,037,599**	96,012	109,117
Change in cash and cash equivalents	**859**	(9,860)	(3,470)
Cash and cash equivalents at beginning of period	**7,993**	17,853	21,323
Cash and cash equivalents at end of period	**$ 8,852**	$ 7,993	$ 17,853
Supplemental cash flow information:			
Cash paid for interest, net of amounts capitalized	**$ 70,066**	$ 60,126	$ 61,160
Cash paid (received) for income taxes, net	**$ (10,809)**	$ 30,361	$ 30,152

See accompanying Notes to Consolidated Financial Statements.

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ONE Gas, Inc.

CONSOLIDATED STATEMENTS OF EQUITY

	Common Stock Issued	Common Stock	Paid-in Capital
	(Shares)	*(Thousands of dollars)*	
January 1, 2019	52,598,005	$ 526	$ 1,727,492
Net income	—	—	—
Other comprehensive loss	—	—	—
Reclassification of stranded tax effects	—	—	—
Common stock issued and other	173,744	2	4,697
Common stock dividends - $2.00 per share	—	—	903
December 31, 2019	52,771,749	528	1,733,092
Net income	—	—	—
Other comprehensive loss	—	—	—
Common stock issued and other	394,984	4	22,915
Common stock dividends - $2.16 per share	—	—	914
December 31, 2020	53,166,733	532	1,756,921
Net income	—	—	—
Other comprehensive income	—	—	—
Common stock issued and other	**466,477**	**4**	**32,445**
Common stock dividends - $2.32 per share	**—**	**—**	**996**
December 31, 2021	**53,633,210**	**$ 536**	**$ 1,790,362**

See accompanying Notes to Consolidated Financial Statements.

ONE Gas, Inc.

CONSOLIDATED STATEMENTS OF EQUITY

(Continued)

	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
	(Thousands of dollars)			
January 1, 2019	$ 320,869	$ (2,145)	$ (4,086)	$ 2,042,656
Net income	186,749	—	—	186,749
Other comprehensive loss	—	—	(1,435)	(1,435)
Reclassification of stranded tax effects	1,218	—	(1,218)	—
Common stock issued and other	—	2,145	—	6,844
Common stock dividends - $2.00 per share	(106,327)	—	—	(105,424)
December 31, 2019	402,509	—	(6,739)	2,129,390
Net income	196,412	—	—	196,412
Other comprehensive loss	—	—	(1,038)	(1,038)
Common stock issued and other	—	—	—	22,919
Common stock dividends - $2.16 per share	(115,286)	—	—	(114,372)
December 31, 2020	483,635	—	(7,777)	2,233,311
Net income	**206,434**	**—**	**—**	**206,434**
Other comprehensive income	**—**	**—**	**1,250**	**1,250**
Common stock issued and other	—	—	—	**32,449**
Common stock dividends - $2.32 per share	**(124,908)**	—	—	**(123,912)**
December 31, 2021	**$ 565,161**	**$ —**	**$ (6,527)**	**$ 2,349,532**

See accompanying Notes to Consolidated Financial Statements.

ONE Gas, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations - We provide natural gas distribution services to our approximately 2.2 million customers through our divisions in Oklahoma, Kansas and Texas through Oklahoma Natural Gas, Kansas Gas Service and Texas Gas Service, respectively. We primarily serve residential, commercial and transportation customers in all three states. We are a corporation incorporated under the laws of the state of Oklahoma, and our common stock is listed on the NYSE under the trading symbol "OGS."

Basis of Presentation - The consolidated financial statements include the accounts of our natural gas distribution business as set forth in "Organization and Nature of Operations" above. All significant balances and transactions between our subsidiaries have been eliminated.

Use of Estimates - The preparation of our consolidated financial statements and related disclosures in accordance with GAAP requires us to make estimates and assumptions with respect to values or conditions that cannot be known with certainty that affect the reported amount of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Items that may be estimated include, but are not limited to, the economic useful life of assets, fair value of assets and liabilities, provisions for doubtful accounts receivable, unbilled revenues for natural gas delivered but for which meters have not been read, natural gas purchased but for which no invoice has been received, provision for income taxes, including any deferred income tax valuation allowances, the results of litigation and various other recorded or disclosed amounts.

We evaluate these estimates on an ongoing basis using historical experience and other methods we consider reasonable based on the particular circumstances. Nevertheless, actual results may differ significantly from the estimates. Any effects on our financial position or results of operations from revisions to these estimates are recorded in the period when the facts that give rise to the revision become known.

Revenues - We recognize revenue from contracts with customers to depict the transfers of goods and services to customers at an amount that we expect to be entitled to receive in exchange for these goods and services. Our sources of revenue are disaggregated by natural gas sales, transportation revenues, and miscellaneous revenues, which are primarily one-time service fees, that meet the requirements of ASC 606. Certain revenues that do not meet the requirements of ASC 606 are classified as other revenues in our Notes to Consolidated Financial Statements in this Annual Report.

Our natural gas sales to customers and transportation revenues represent revenues from contracts with customers through implied contracts established by our tariffs approved by the regulatory authorities. Our customers receive the benefits of our performance when the commodity is delivered to the customer. The performance obligation is satisfied over time as the customer receives the natural gas.

For deliveries of natural gas, we read meters and bill customers on a monthly cycle. We recognize revenues upon the delivery of natural gas commodity or services rendered to customers. The billing cycles for customers do not necessarily coincide with the accounting periods used for financial reporting purposes. We accrue unbilled revenues for natural gas that has been delivered but not yet billed at the end of an accounting period. We use the invoice method practical expedient, where we recognize revenue for volumes delivered for which we have a right to invoice. Our estimate of accrued unbilled revenue is based on a percentage estimate of amounts unbilled each month, which is dependent upon a number of factors, some of which require management's judgment. These factors include customer consumption patterns and the impact of weather on usage. The accrued unbilled natural gas sales revenue at December 31, 2021 and 2020 was $183.2 million and $144.9 million, respectively, and is included in accounts receivable on our consolidated balance sheets.

Our miscellaneous revenues from contracts with customers represent implied contracts established by our tariff rates approved by the regulatory authorities and include miscellaneous utility services with the performance obligation satisfied at a point in time when services are rendered to the customer.

Total other revenues consist of revenues associated with regulatory mechanisms that do not meet the requirements of ASC 606 as revenue from contracts with customers, but authorize us to accrue revenues earned based on tariffs approved by the regulatory authorities. Other revenues - natural gas sales primarily relate to the WNA mechanism in Kansas. This mechanism adjusts our revenues earned for the variance between actual and normal HDDs. This mechanism can have either positive (warmer than normal) or negative (colder than normal) effects on revenues.

We collect and remit other taxes on behalf of governmental authorities, and we record these amounts in accrued taxes other than income in our consolidated balance sheets. See Note 2 for additional discussion of revenues.

Cost of Natural Gas - Cost of natural gas includes commodity purchases, fuel, storage, transportation and other gas purchase costs recovered through our cost of natural gas regulatory mechanisms and does not include an allocation of general operating costs or depreciation and amortization. These cost of natural gas regulatory mechanisms provide a method of recovering natural gas costs on an ongoing basis without a profit. See Note 10 for additional discussion of purchased gas cost recoveries.

Cash and Cash Equivalents - Cash equivalents consist of highly liquid investments, which are readily convertible into cash and have original maturities of three months or less.

Accounts Receivable - Accounts receivable represent valid claims against nonaffiliated customers for natural gas sold or services rendered, net of an allowance for doubtful accounts. We assess the creditworthiness of our customers. Those customers who do not meet minimum standards may be required to provide security, including deposits and other forms of collateral, when appropriate and allowed by our tariffs. With approximately 2.2 million customers across three states, we are not exposed materially to a concentration of credit risk. We maintain an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends, consideration of the current credit environment and other information. We are able to recover natural gas costs related to uncollectible accounts through purchased-gas cost adjustment mechanisms. At December 31, 2021 and 2020, our allowance for doubtful accounts was $18.7 million and $16.6 million, respectively.

Inventories - Natural gas in storage is accounted for on the basis of weighted-average cost. Natural gas inventories that are injected into storage are recorded in inventory based on actual purchase costs, including storage and transportation costs. Natural gas inventories that are withdrawn from storage are accounted for in our purchased-gas cost adjustment mechanisms at the weighted-average inventory cost.

Materials and supplies inventories are stated at the lower of weighted-average cost or net realizable value.

Leases - We determine if an arrangement is a lease at inception if the contract conveys the right to control the use and obtain substantially all the economic benefits from the use of an identified asset for a period of time in exchange for consideration. We identify a lease as a finance lease if the agreement includes any of the following criteria: transfer of ownership by the end of the lease term; an option to purchase the underlying asset that the lessee is reasonably certain to exercise; a lease term that represents 75 percent or more of the remaining economic life of the underlying asset; a present value of lease payments and any residual value guaranteed by the lessee that equals or exceeds 90 percent of the fair value of the underlying asset; or an underlying asset that is so specialized in nature that there is no expected alternative use to the lessor at the end of the lease term. A lease that does not meet any of these criteria is considered an operating lease.

Lease right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at the commencement date of a lease based on the present value of lease payments over the lease term. Our lease terms may include options to extend or terminate the lease. We include these extension or termination options in the determination of the lease term when it is reasonably certain that we will exercise that option. We have lease agreements with lease and non-lease components, which are accounted for separately. Additionally, for certain office equipment leases, we apply a portfolio approach to effectively account for the operating lease right-of-use assets and liabilities. We do not recognize leases having a term of less than one year in our consolidated balance sheets.

For purposes of determining the present value of the lease payments, we use a lease's implicit interest rate when readily determinable. As most of our leases do not provide an implicit interest rate, we use an incremental borrowing rate based on available information at the commencement of the lease. Lease cost for operating leases is recognized on a straight-line basis over the lease term. See Note 5 for additional information regarding our leases.

Derivatives and Risk Management Activities - We record all derivative instruments at fair value, with the exception of normal purchases and normal sales that are expected to result in physical delivery. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, the reason for holding it, or if regulatory requirements impose a different accounting treatment.

If certain conditions are met, we may elect to designate a derivative instrument as a hedge of exposure to changes in fair values or cash flows. We have not elected to designate any of our derivative instruments as hedges.

The table below summarizes the various ways in which we account for our derivative instruments and the impact on our consolidated financial statements:

	Recognition and Measurement	
Accounting Treatment	**Balance Sheet**	**Income Statement**
Normal purchases and normal sales	- Fair value not recorded	- Change in fair value not recognized in earnings
Mark-to-market	- Recorded at fair value	- Change in fair value recognized in, and recoverable through, the purchased-gas cost adjustment mechanisms

See Note 9 for additional information regarding our hedging activities using derivatives.

Fair Value Measurements - We define fair value as the price that would be received from the sale of an asset or the transfer of a liability in an orderly transaction between market participants at the measurement date. We use the market and income approaches to determine the fair value of our assets and liabilities and consider the markets in which the transactions are executed. We measure the fair value of a group of financial assets and liabilities consistent with how a market participant would price the net risk exposure at the measurement date.

Fair Value Hierarchy - At each balance sheet date, we utilize a fair value hierarchy to classify fair value amounts recognized or disclosed in our consolidated financial statements based on the observability of inputs used to estimate such fair value. The levels of the hierarchy are described below:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Significant observable pricing inputs other than quoted prices included within Level 1 that are, either directly or indirectly, observable as of the reporting date. Essentially, this represents inputs that are derived principally from or corroborated by observable market data; and
- Level 3 - May include one or more unobservable inputs that are significant in establishing a fair value estimate. These unobservable inputs are developed based on the best information available and may include our own internal data.

We recognize transfers into and out of the levels as of the end of each reporting period.

Determining the appropriate classification of our fair value measurements within the fair value hierarchy requires management's judgment regarding the degree to which market data is observable or corroborated by observable market data. We categorize derivatives for which fair value is determined using multiple inputs within a single level, based on the lowest level input that is significant to the fair value measurement in its entirety. See Note 9 for additional information regarding our fair value measurements.

Property, Plant and Equipment - Our properties are stated at cost, which includes direct construction costs such as direct labor, materials, burden and AFUDC. Generally, the cost of our property retired or sold, plus removal costs, less salvage, is charged to accumulated depreciation. Gains and losses from sales or retirement of an entire operating unit or system of our properties are recognized in income. Maintenance and repairs are charged directly to expense.

AFUDC represents the cost of borrowed funds used to finance construction activities. We capitalize interest costs during the construction or upgrade of qualifying assets. Capitalized interest is recorded as a reduction to interest expense.

Our properties are depreciated using the straight-line method over their estimated useful lives. Generally, we apply composite depreciation rates to functional groups of property having similar economic circumstances. We periodically conduct depreciation studies to assess the economic lives of our assets. These depreciation studies are completed as a part of our regulatory proceedings, and the changes in economic lives, if applicable, are implemented prospectively when the new rates are approved by our regulators and become effective. Changes in the estimated economic lives of our property, plant and equipment could have a material effect on our financial position, results of operations or cash flows.

Property, plant and equipment on our Consolidated Balance Sheets includes construction work in process for capital projects that have not yet been placed in service and therefore are not being depreciated. Assets are transferred out of construction work in process when they are substantially complete and ready for their intended use.

See Note 11 for additional information regarding our property, plant and equipment.

Impairment of Goodwill and Long-Lived Assets - We assess our goodwill for impairment at least annually as of July 1, unless events or a change in circumstances indicate an impairment may have occurred before that time. As part of our goodwill impairment test, we first assess qualitative factors (including macroeconomic conditions, industry and market considerations, cost factors and overall financial performance) to determine whether it is more likely than not that our fair value is less than the carrying amount of our net assets. If further testing is necessary or a quantitative test is elected to refresh our recurring qualitative assessment, we perform a quantitative impairment test for goodwill.

Our impairment test is made by comparing our fair value with our book value, including goodwill. If the fair value is less than the book value, an impairment is measured by the amount of our carrying value that exceeds fair value, not to exceed the carrying amount of our goodwill.

To estimate fair value, we use two generally accepted valuation approaches, an income approach and a market approach, using assumptions consistent with a market participant's perspective. Under the income approach, we use anticipated cash flows over a period of years plus a terminal value and discount these amounts to their present value using appropriate discount rates. Under the market approach, we apply acquisition multiples to forecasted cash flows. The acquisition multiples used are consistent with historical market transactions. The forecasted cash flows are based on average forecasted cash flows over a period of years.

We performed a quantitative analysis in 2019, which did not result in any impairment indicators, nor did our analysis reflect our reporting unit at risk. Our goodwill impairment analysis performed in 2021 and 2020 utilized a qualitative assessment and did not result in any impairment indicators, nor did our analysis reflect our reporting unit at risk. Subsequent to July 1, 2021, no event has occurred indicating that it is more likely than not that our fair value is less than the carrying value of our net assets.

We assess our long-lived assets for impairment whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. An impairment is indicated if the carrying amount of a long-lived asset exceeds the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of the asset. If an impairment is indicated, we record an impairment loss equal to the difference between the carrying value and the fair value of the long-lived asset. We determined that there were no material asset impairments in 2021, 2020 or 2019.

Regulation - We are subject to the rate regulation and accounting requirements of the OCC, KCC, RRC and various municipalities in Texas. We follow the accounting and reporting guidance for regulated operations. During the ratemaking process, regulatory authorities set the framework for what we can charge customers for our services and establish the manner that our costs are accounted for, including allowing us to defer recognition of certain costs and permitting recovery of the amounts through rates over time, as opposed to expensing such costs as incurred. Examples include weather normalization, unrecovered purchased-gas costs, extraordinary costs associated with Winter Storm Uri, pension and postemployment benefit costs and ad-valorem taxes. This allows us to stabilize rates over time rather than passing such costs on to the customer for immediate recovery. Actions by regulatory authorities could have an effect on the amount recovered from customers. Any difference in the amount recoverable and the amount deferred is recorded as income or expense at the time of the regulatory action. A write-off of regulatory assets and costs not recovered may be required if all or a portion of the regulated operations have rates that are no longer:
- established by independent regulators;
- designed to recover our costs of providing regulated services; and
- set at levels that will recover our costs when considering the demand and competition for our services.

See Note 10 for additional information regarding our regulatory assets and liabilities disclosures.

Pension and Other Postemployment Employee Benefits - We have defined benefit pension plans covering eligible employees. We also sponsor welfare plans that provide other postemployment medical and life insurance benefits to eligible employees who retire with at least five years of service. To calculate the costs and liabilities related to our plans, we utilize an outside actuarial consultant, which uses statistical and other factors to anticipate future events. These factors include assumptions about the discount rate, expected return on plan assets, rate of future compensation increases, age and mortality and employment periods. We use tables issued by the Society of Actuaries to estimate mortality rates. In determining the projected benefit obligations and costs, assumptions can change from period to period and may result in material changes in the cost and liabilities we recognize.

Income Taxes - Deferred income taxes are recorded for the difference between the financial statement and income tax basis of assets and liabilities and carryforward items, based on income tax laws and rates existing at the time the temporary differences are expected to reverse. The effect on deferred income taxes of a change in tax rates is deferred and amortized for operations regulated by the OCC, KCC, RRC and various municipalities in Texas, if, as a result of an action by a regulator, it is probable that the effect of the change in tax rates will be recovered from or returned to customers through future rates. We continue to amortize previously deferred investment tax credits for ratemaking purposes over the periods prescribed by our regulators.

A valuation allowance for deferred income tax assets is recognized when it is more likely than not that some or all of the benefit from the deferred income tax asset will not be realized. To assess that likelihood, we use estimates and judgment regarding our future taxable income, as well as the jurisdiction in which such taxable income is generated, to determine whether a valuation allowance is required. Such evidence can include our current financial position, our results of operations, both actual and forecasted, the reversal of deferred income tax liabilities, as well as the current and forecasted business economics of our industry. We had no valuation allowance at December 31, 2021 and 2020.

We utilize a more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position that is taken or expected to be taken in a tax return. We reflect penalties and interest as part of income tax expense as they become applicable for tax provisions that do not meet the more-likely-than-not recognition threshold and measurement attribute. There were no material uncertain tax positions at December 31, 2021 and 2020.

Changes in tax laws or tax rates are recognized in the financial reporting period that includes the enactment date.

See Note 14 for additional information regarding income taxes.

Asset Retirement Obligations - Asset retirement obligations represent legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset. Certain long-lived assets that comprise our natural gas distribution systems, primarily our pipeline assets, are subject to agreements or regulations that give rise to an asset retirement obligation for removal or other disposition costs associated with retiring the assets in place upon the discontinued use of the natural gas distribution system. We recognize the fair value of a liability for an asset retirement obligation in the period when it is incurred if a reasonable estimate of the fair value can be made. We are not able to estimate reasonably the fair value of the asset retirement obligations for portions of our assets because the settlement dates are indeterminable given our expected continued use of the assets with proper maintenance. We expect our natural gas distribution systems will continue in operation for the foreseeable future. Based on our proximity to significant natural gas reserves and infrastructure and the widespread use of natural gas for heating and cooking activities by residential and commercial customers in our service areas, we expect supply and demand to exist for the foreseeable future.

In accordance with long-standing regulatory treatment, we collect through rates the estimated costs of removal on certain regulated properties through depreciation expense as a portion of the net salvage value component of our composite deprecation rates, with a corresponding credit to accumulated depreciation and amortization. These removal costs collected through our rates include costs attributable to legal and nonlegal removal obligations. These costs are addressed prospectively in depreciation rates, rather than as a regulatory liability, in each general rate order.

For financial reporting purposes, if the removal costs collected have exceeded our removal costs incurred, we estimate a regulatory liability using current rates since the last general rate order in each of our jurisdictions. At December 31, 2021 and 2020, we have not recorded a regulatory liability as our removal costs incurred have exceeded amounts collected through our depreciation rates. Significant uncertainty exists regarding the recording of these regulatory liabilities, pending, among other issues, clarification of regulatory intent. We continue to monitor the regulatory requirements, and any future regulatory liabilities incurred may be adjusted as more information is obtained. To the extent these estimated liabilities are adjusted, such amounts will be reclassified between accumulated depreciation and amortization and regulatory liabilities on our balance sheet and therefore will not have an impact on earnings.

Contingencies - Our accounting for contingencies covers a variety of business activities, including contingencies for legal and environmental exposures. We accrue these contingencies when our assessments indicate that it is probable that a liability has been incurred or an asset will not be recovered and an amount can be estimated reasonably. We expense legal fees as incurred and base our legal liability estimates on currently available facts and our estimates of the ultimate outcome or resolution. Accruals for the estimated cost of environmental remediation obligations generally are recognized no later than the completion of a remediation feasibility study. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable. Actual results may differ from our estimates resulting in an impact, positive or negative, on earnings.

See Note 16 for additional information regarding contingencies.

Share-Based Payments - We expense the fair value of share-based payments net of estimated forfeitures. We estimate forfeiture rates based on historical forfeitures under our share-based payment plans.

Earnings per share - Basic EPS is based on net income and is calculated based upon the daily weighted-average number of common shares outstanding during the periods presented. Also, this calculation includes fully vested stock awards that have not yet been issued as common stock. Diluted EPS includes the above, plus unvested stock awards granted under our compensation plans, but only to the extent these instruments dilute earnings per share.

Segments - We operate in one reportable business segment: regulated public utilities that deliver natural gas primarily to residential, commercial and transportation customers. We define reportable business segments as components of an organization for which discrete financial information is available and operating results are evaluated on a regular basis by the chief operating decision maker ("CODM") in order to assess performance and allocate resources. Our CODM is our Chief Executive Officer. Characteristics of our organization that were relied upon in making this determination include the similar nature of services we provide, the functional alignment of our organizational structure, and the reports that are regularly reviewed by the CODM for the purpose of assessing performance and allocating resources. Our management is functionally aligned and centralized, with performance evaluated based upon results of the entire distribution business. Capital allocation decisions are driven by asset integrity management, operating efficiency, growth opportunities and government-requested pipeline relocations, not geographic location or regulatory jurisdiction.

In 2021, 2020 and 2019, we had no single external customer from which we received 10 percent or more of our gross revenues.

Treasury Stock - We record treasury stock purchases at cost, which includes incremental direct transaction costs. Amounts are recorded as reductions in equity in our consolidated balance sheets. We record the reissuance of treasury stock at our weighted average cost of treasury shares recorded in equity in our consolidated balance sheets.

Reclassifications - Certain reclassifications have been made in the prior-year financial statements to conform to the current-year presentation. We have updated our 2020 and 2019 Statements of Cash Flows to disaggregate "regulatory assets and liabilities" and "other assets and liabilities" into current and non-current components that are presented on our balance sheet to conform to our current year presentation.

Recently Issued Accounting Standards Update - In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting," which provides relief from the accounting analysis and impacts that may otherwise be required for modifications to agreements (e.g., loans, debt securities, derivatives, borrowings) necessitated by reference rate reform. It also provides optional expedients to enable companies to continue to apply hedge accounting to certain hedging relationships impacted by reference rate reform. In the first quarter 2020, we adopted this new guidance effective for contracts modified between March 12, 2020 and December 31, 2022. Our revolving line of credit under the ONE Gas Credit Agreement and our floating-rate senior notes utilize LIBOR as the reference rate. If modified, we may elect the optional practical expedients to account for the modifications prospectively. Our adoption did not result in a material impact to our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes," which removes certain exceptions for recognizing deferred taxes for investments, performing intra-period allocation and calculating income taxes in interim periods. ASU 2019-12 also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. This standard is effective for interim and annual periods in fiscal years beginning after December 15, 2020. We adopted this new guidance in the first quarter of 2021 and our adoption did not result in a material impact to our financial position or results of operations or to our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)." Under this guidance, a company should defer implementation costs that it incurs if a company would capitalize those same costs under the internal-use software guidance for an arrangement that is a software license. The deferred implementation costs should be amortized over the term of the hosting arrangement, including any probable renewals. We are party to hosting arrangements identified as service contracts for various information systems used in our operations. We adopted this new guidance using the prospective transition approach for implementation costs incurred in hosting arrangement service contracts beginning January 1, 2020. In certain jurisdictions, we have orders from our regulators allowing us to amortize deferred implementation costs for hosting arrangements entered into after January 1, 2020, over the life approved by our regulators for our internal-use software systems rather than the term of the hosting arrangement. The difference in amortization calculated between the term of the hosting arrangement and internal-use software life approved by our regulators is deferred as a regulatory asset and amortized over the remaining internal-use software life that exceeds the term of the hosting arrangement. Our adoption did not result in a material impact to our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, an amendment to ASC 715, "Compensation - Retirement Benefits." This guidance eliminates requirements for certain disclosures such as the amount and timing of plan assets expected to be returned to the employer and the amount of future annual benefits covered by insurance contracts. The standard is effective for periods ending after December 15, 2020, and we adopted this guidance in the first quarter 2020. The guidance added new disclosure requirements for sponsors of the defined benefit plans to provide information relating to the weighted-average interest crediting rate for cash balance plans and other plans with promised interest crediting rates and an explanation for significant gains or losses related to changes in the benefit obligations for the period. We have reflected these changes as presented in Note 13 to our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement," which removes, modifies and adds to certain disclosure requirements of fair value measurements. The guidance was effective for the Company beginning January 1, 2020, and we adopted this guidance in the first quarter 2020. Disclosure requirements removed include the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements. Modifications include considerations around the requirement to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse. The additions include the requirement to disclose changes in unrealized gains and losses for the period in other comprehensive income for recurring Level 3 fair value measurements held and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The guidance did not have a material impact on the Company's fair value disclosure, and we have reflected these changes as presented in Note 13 to our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which allows a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. We adopted this new guidance in the first quarter 2019 and our adoption did not result in a material impact to our consolidated financial statements. This change is reflected in our consolidated statements of equity.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments," which introduces new guidance to the accounting for credit losses on instruments within its scope, including trade receivables. We adopted this new guidance in the first quarter 2020 using the modified retrospective method. Our financial assets within scope of this guidance primarily include our trade receivables from customers. Our policy for measuring our allowance for doubtful accounts is disclosed in the aforementioned policy for accounts receivable. We did not create any new accounting policies, nor did we modify any of our existing policies, as a result of adopting this guidance. Our adoption did not result in a cumulative adjustment to our opening retained earnings or have a material impact to our consolidated financial statements.

2. REVENUE

The following table sets forth our revenues disaggregated by source for the periods indicated:

	Year Ended December 31,		
	2021	**2020**	**2019**
	(Thousands of dollars)		
Natural gas sales to customers	**$ 1,652,566**	$ 1,381,141	$ 1,512,886
Transportation revenues	**118,492**	113,855	114,014
Miscellaneous revenues	**16,757**	15,505	20,579
Total revenues from contracts with customers	**1,787,815**	1,510,501	1,647,479
Other revenues - natural gas sales related	**9,650**	8,299	(4,699)
Other revenues	**11,132**	11,468	9,950
Total other revenues	**20,782**	19,767	5,251
Total revenues	**$ 1,808,597**	$ 1,530,268	$ 1,652,730

3. CREDIT FACILITY AND SHORT-TERM NOTES PAYABLE

On March 16, 2021, we entered into the second amended and restated ONE Gas Credit Agreement, which was previously amended and restated on October 5, 2017.

The ONE Gas Credit Agreement provides for a $1.0 billion revolving unsecured credit facility and includes a $20 million letter of credit subfacility and a $60 million swingline subfacility. We can request an increase in commitments of up to an additional $500 million upon satisfaction of customary conditions, including receipt of commitments from either new lenders or increased commitments from existing lenders. We will be able to extend the maturity date by one year, subject to the lenders' consent, up to two times. The ONE Gas Credit Agreement expires in March 2026, and is available to provide liquidity for working capital, capital expenditures, acquisitions and mergers, the issuance of letters of credit and for other general corporate purposes.

The ONE Gas Credit Agreement utilizes LIBOR as the reference rate for determining interest to accrue on the borrowings. In the event LIBOR is not available, and such circumstances are unlikely to be temporary, our lenders may establish an alternative interest rate for the senior notes by replacing LIBOR with one or more secured overnight financing-based rates or another alternate benchmark rate.

The ONE Gas Credit Agreement contains certain financial, operational and legal covenants. Among other things, these covenants include maintaining ONE Gas' total debt-to-capital ratio of no more than 72.5 percent at the end of any calendar quarter through December 31, 2021, and 70 percent at the end of any calendar quarter thereafter. At December 31, 2021, our total debt-to-capital ratio was 64 percent and we were in compliance with all covenants under the ONE Gas Credit Agreement. We may reduce the unutilized portion of the ONE Gas Credit Agreement in whole or in part without premium or penalty. The ONE Gas Credit Agreement contains customary events of default. Upon the occurrence of certain events of default, the obligations under the ONE Gas Credit Agreement may be accelerated and the commitments may be terminated.

At December 31, 2021, we had $1.2 million in letters of credit issued and no borrowings under the ONE Gas Credit Agreement, with $998.8 million of remaining credit available to repay our commercial paper borrowings.

In connection with the second amendment and restatement of the ONE Gas Credit Agreement on March 16, 2021, all commitments under the ONE Gas 364-day Credit Agreement were terminated and all obligations under the ONE Gas 364-day Credit Agreement were discharged.

On June 22, 2021, we increased the size of our commercial paper program to permit the issuance of commercial paper to fund short-term borrowing needs in an aggregate principal amount not to exceed $1.0 billion outstanding at any time. The maturities of the commercial paper notes may vary, but may not exceed 270 days from the date of issue. The commercial paper notes are sold generally at par less a discount representing an interest factor. At December 31, 2021 and 2020, we had $494.0 million and $418.2 million of commercial paper outstanding, respectively. The weighted-average interest rate on our commercial paper was 0.38 percent and 0.18 percent at December 31, 2021 and 2020, respectively.

4. LONG-TERM DEBT

Senior Notes - In March 2021, we issued $1.0 billion of 0.85 percent senior notes due 2023, $700 million of 1.10 percent senior notes due 2024, and $800 million of floating-rate senior notes due 2023. The floating-rate senior notes bear interest at a rate equal to three-month LIBOR plus 61 basis points per year reset quarterly for the applicable interest period (0.81 percent at December 31, 2021). The net proceeds from the issuance were used for general corporate purposes, including payment of gas purchase costs resulting from Winter Storm Uri.

In the event LIBOR is not available, and such circumstances are unlikely to be temporary, we or our designee may establish an alternative interest rate for our floating-rate senior notes due 2023 by replacing LIBOR with one or more secured financing-based rates or another alternate benchmark rate.

On September 21, 2021, we called $400 million of the floating-rate senior notes due 2023 at par, using a combination of cash on hand and commercial paper. We did not have the right to call these senior notes prior to September 11, 2021.

In April 2020, ONE Gas issued $300 million of 2.00 percent senior notes due 2030. The proceeds from the issuance were used to reduce the amount of outstanding commercial paper and for general corporate purposes.

Our long-term debt includes $1.0 billion of 0.85 percent senior notes due 2023, $400 million of floating-rate senior notes due 2023, $300 million of 3.61 percent senior notes due in 2024, $700 million of 1.10 percent senior notes due 2024, $300 million of 2.00 percent senior notes due 2030, $600 million of 4.658 percent senior notes due 2044, and $400 million of 4.50 percent senior notes due 2048. The indenture governing our Senior Notes includes an event of default upon the acceleration of other indebtedness of $100 million or more. Such events of default would entitle the trustee or the holders of 25 percent in the aggregate principal amount of the outstanding Senior Notes to declare those Senior Notes immediately due and payable in full.

Depending on the series, we may redeem our Senior Notes at par, plus accrued and unpaid interest to the redemption date, starting three months or six months before their maturity dates. Prior to these dates, we may redeem these Senior Notes, in whole or in part, at a redemption price equal to the principal amount, plus accrued and unpaid interest and a make-whole premium. The redemption price will never be less than 100 percent of the principal amount of the respective Senior Note plus accrued and unpaid interest to the redemption date. Our Senior Notes are senior unsecured obligations, ranking equally in right of payment with all of our existing and future unsecured senior indebtedness.

ONE Gas 2021 Term Loan Facility - On February 22, 2021, we entered into the ONE Gas 2021 Term Loan Facility as part of the financing of our natural gas purchases in order to provide sufficient liquidity to satisfy our obligations as a result of Winter Storm Uri. The net proceeds of the March 2021 debt issuance reduced the commitments under the ONE Gas 2021 Term Loan Facility on a dollar-for-dollar basis, and as a result no commitments remained outstanding and the facility was terminated concurrently with the closing of the debt issuance.

5. LEASES

We have operating leases for office facilities, gas storage facilities, IT equipment and right-of-way contracts. Our leases have remaining lease terms of one year to eight years, some of which include options to extend the leases for up to 10 years, and some of which include options to terminate the leases within specified time frames. We have not entered into any finance leases.

Our right-of-use asset is $30.9 million and $37.2 million as of December 31, 2021 and 2020, respectively, and is reported within other assets in our Consolidated Balance Sheets. Operating lease liabilities are reported within our other current liabilities and other liabilities in our consolidated balance sheets. Total operating lease cost including immaterial amounts attributable to short-term operating leases was $8.2 million, $8.4 million, and $8.5 million in 2021, 2020 and 2019, respectively.

In 2021, we reassessed certain operating leases for office facilities and IT which were extended or modified, resulting in an increase in our right-of-use asset and operating lease liability of $0.4 million and $0.4 million, respectively.

		Years Ended December 31,	
Other information related to operating leases	**2021**	**2020**	**2019**
		(Millions of dollars)	
Weighted-average remaining lease term	**6 years**	**7 years**	**7 years**
Weighted-average discount rate	**2.78 %**	**2.81 %**	**3.62 %**
Supplemental cash flows information			
Lease payments	**$ (8.0)**	**$ (8.0)**	**$ (8.4)**
Right-of-use assets obtained in exchange for lease obligations	**$ 0.4**	**$ 9.8**	**$ 9.5**

Future minimum lease payments under non-cancellable operating leases		**December 31, 2021**
		(Millions of dollars)
2022	$	**7.5**
2023		**6.3**
2024		**4.8**
2025		**4.1**
2026		**3.3**
Thereafter		**7.7**
Total future minimum lease payments	$	**33.7**
Imputed interest		**(2.5)**
Total operating lease liability	$	**31.2**
Consolidated balance sheets as of December 31, 2021		
Current operating lease liability	$	**6.8**
Long-term operating lease liability		**24.4**
Total operating lease liability	$	**31.2**

6. EQUITY

Preferred Stock - At December 31, 2021, we had 50 million, $0.01 par value, authorized shares of preferred stock available. We have not issued or established any classes or series of shares of preferred stock.

Common Stock - At December 31, 2021, we had approximately 196.4 million shares of authorized common stock available for issuance.

Treasury Shares - In 2019, we were authorized to purchase treasury shares to be used to offset shares issued under our equity compensation plan and the ESPP. Our Board of Directors established an annual limit of $20 million of treasury stock purchases, exclusive of funds received through the dividend reinvestment and the ESPP. Stock purchases could have been made in the open market or in private transactions at times, and in amounts that we deemed appropriate. There was no guarantee as to the exact number of shares that we would have purchased, and we terminated the program in 2019.

At-the-Market Equity Program - In February 2020, we initiated an at-the-market equity program by entering into an equity distribution agreement under which we may issue and sell shares of our common stock with an aggregate offering price up to $250 million (including any shares of common stock that may be sold pursuant to the master forward sale confirmation entered into in connection with the equity distribution agreement and the related supplemental confirmations). Sales of common stock are made by means of ordinary brokers' transactions on the NYSE, in block transactions or as otherwise agreed to between us and the sales agent. We are under no obligation to offer and sell common stock under the program. For the years ended December 31, 2021 and 2020, we issued and sold 281,124 and 179,514 shares of our common stock for $21.4 million and $13.6 million, respectively, generating proceeds, net of issuance costs, of $21.1 million and $13.5 million, respectively. At December 31, 2021, we had $215.0 million of equity available for issuance under the program.

Dividends Declared - For the years ended December 31, 2021 and 2020, we declared and paid dividends of 2.32 per share (0.58 per share quarterly) and 2.16 per share (0.54 per share quarterly), respectively. In January 2022, we declared a dividend of $0.62 per share ($2.48 per share on an annualized basis) for shareholders of record on February 25, 2022, payable on March 11, 2022.

7. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table sets forth the balance in accumulated other comprehensive loss for the periods indicated:

		Accumulated Other Comprehensive Loss
		(Thousands of dollars)
January 1, 2020	$	(6,739)
Pension and other postemployment benefit plans obligations		
Other comprehensive income before reclassification, net of tax of $587		(1,932)
Amounts reclassified from accumulated other comprehensive loss, net of tax of $(298)		894
Other comprehensive loss		(1,038)
December 31, 2020		(7,777)
Pension and other postemployment benefit plans obligations		
Other comprehensive loss before reclassification, net of tax of $11		**78**
Amounts reclassified from accumulated other comprehensive loss, net of tax of $(390)		**1,172**
Other comprehensive income		**1,250**
December 31, 2021		**(6,527)**

The following table sets forth the effect of reclassifications from accumulated other comprehensive loss on our Consolidated Statements of Income for the periods indicated:

Details about Accumulated Other Comprehensive Loss Components	Years Ended December 31, 2021	2020	2019	Affected Line Item in the Consolidated Statements of Income
	(Thousands of dollars)			
Pension and other postemployment benefit plan obligations (a)				
Amortization of net loss	**$ 45,896**	$ 42,492	$ 35,283	
Amortization of unrecognized prior service cost	**(279)**	(117)	(673)	
	45,617	42,375	34,610	
Regulatory adjustments (b)	**(44,055)**	(41,183)	(33,758)	
	1,562	1,192	852	Income before income taxes
	(390)	(298)	(213)	Income tax expense
Total reclassifications for the period	**$ 1,172**	$ 894	$ 639	Net income

(a) These components of accumulated other comprehensive loss are included in the computation of net periodic benefit cost. See Note 13 for additional information regarding our net periodic benefit cost.
(b) Regulatory adjustments represent pension and other postemployment benefit costs expected to be recovered through rates and are deferred as part of our regulatory assets. See Note 10 for additional information regarding our regulatory assets and liabilities.

8. EARNINGS PER SHARE

The following tables set forth the computation of basic and diluted EPS from continuing operations for the periods indicated:

	Year Ended December 31, 2021 Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS Calculation			
Net income available for common stock	**$ 206,434**	**53,575**	**$ 3.85**
Diluted EPS Calculation			
Effect of dilutive securities	—	**99**	
Net income available for common stock and common stock equivalents	**$ 206,434**	**53,674**	**$ 3.85**

	Year Ended December 31, 2020		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS Calculation			
Net income available for common stock	$ 196,412	53,133	$ 3.70
Diluted EPS Calculation			
Effect of dilutive securities	—	237	
Net income available for common stock and common stock equivalents	$ 196,412	53,370	$ 3.68

	Year Ended December 31, 2019		
	Income	Shares	Per Share Amount
	(Thousands, except per share amounts)		
Basic EPS Calculation			
Net income available for common stock	$ 186,749	52,895	$ 3.53
Diluted EPS Calculation			
Effect of dilutive securities	—	345	
Net income available for common stock and common stock equivalents	$ 186,749	53,240	$ 3.51

9. DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Derivative Instruments - At December 31, 2021, we held purchased natural gas call options for the heating season ending March 2022, with total notional amounts of 13.2 Bcf, for which we paid premiums of $9.5 million, and which had a fair value of $2.3 million. At December 31, 2020, we held purchased natural gas call options for the heating season ended March 2021, with total notional amounts of 14.7 Bcf, for which we paid premiums of $6.7 million, and which had a fair value of $0.8 million. These contracts are included in, and recoverable through, our purchased-gas cost adjustment mechanisms. Additionally, premiums paid, changes in fair value and any settlements received associated with these contracts are deferred as part of our unrecovered purchased-gas costs in our consolidated balance sheets. Our natural gas call options are classified as Level 1, as fair value amounts are based on unadjusted quoted prices in active markets including settled prices on the New York Mercantile Exchange. There were no transfers between levels for the periods presented.

Other Financial Instruments - The approximate fair value of cash and cash equivalents, accounts receivable and accounts payable is equal to book value, due to the short-term nature of these items. Our cash and cash equivalents are comprised of cash and money market accounts, which we consider to be Level 1. At December 31, 2021, other current and noncurrent assets included $6.9 million of corporate bonds and $3.5 million of United States treasury notes, for which the fair value approximates our cost, and are classified as Level 2 and Level 1, respectively. At December 31, 2020, other current and noncurrent assets included $1.6 million of corporate bonds and $3.2 million of United States treasury notes, for which the fair value approximates our cost, and are classified as Level 2 and Level 1, respectively.

Short-term notes payable and commercial paper are due upon demand and, therefore, the carrying amounts approximate fair value and are classified as Level 1. The book value of our long-term debt, including current maturities, was $3.7 billion and $1.6 billion at December 31, 2021 and 2020, respectively. The estimated fair value of our long-term debt, including current maturities, was $3.9 billion and $2.0 billion at December 31, 2021 and 2020, respectively. The estimated fair value of our long-term debt was determined using quoted market prices, and is considered Level 2.

10. REGULATORY ASSETS AND LIABILITIES

The tables below present a summary of regulatory assets, net of amortization, and liabilities for the periods indicated:

	Remaining Recovery Period	December 31, 2021 Current	Noncurrent	Total
		(Thousands of dollars)		
Winter weather event costs	(a)	**$1,536,054**	**$ 428,023**	**$1,964,077**
Under-recovered purchased-gas costs	1 year	**31,863**	**—**	**31,863**
Pension and other postemployment benefit costs	See Note 13	**11,507**	**260,559**	**272,066**
Reacquired debt costs	6 years	**812**	**4,070**	**4,882**
MGP remediation costs	15 years	**98**	**29,841**	**29,939**
Ad-valorem tax	1 year	**8,561**	**—**	**8,561**
WNA	1 year	**10,044**	**—**	**10,044**
Customer credit deferrals	1 year	**10,685**	**—**	**10,685**
Other	1 to 18 years	**2,052**	**2,369**	**4,421**
Total regulatory assets, net of amortization		**1,611,676**	**724,862**	**2,336,538**
Income tax rate changes	(a)	**—**	**(552,928)**	**(552,928)**
Over-recovered purchased-gas costs	1 year	**(8,090)**	**—**	**(8,090)**
Total regulatory liabilities		**(8,090)**	**(552,928)**	**(561,018)**
Net regulatory assets and liabilities		**$1,603,586**	**$ 171,934**	**$1,775,520**

(a) Recovery period varies by jurisdiction. See discussion below for additional information regarding our regulatory assets related to winter weather event costs and regulatory liabilities related to federal income tax rate changes.

	Remaining Recovery Period	December 31, 2020 Current	Noncurrent	Total
		(Thousands of dollars)		
Under-recovered purchased-gas costs	1 year	$ 16,502	$ —	$ 16,502
Pension and other postemployment benefit costs	See Note 13	16,541	341,266	357,807
Reacquired debt costs	7 years	812	4,866	5,678
MGP remediation costs	15 years	98	18,711	18,809
Ad-valorem tax	1 year	5,558	—	5,558
WNA	1 year	4,806	—	4,806
Customer credit deferrals	1 year	10,267	—	10,267
Other	1 to 18 years	2,189	2,113	4,302
Total regulatory assets, net of amortization		56,773	366,956	423,729
Income tax rate changes	(a)	—	(547,563)	(547,563)
Over-recovered purchased-gas costs	1 year	(15,761)	—	(15,761)
Total regulatory liabilities		(15,761)	(547,563)	(563,324)
Net regulatory assets and liabilities		$ 41,012	$ (180,607)	$ (139,595)

(a) Recovery period varies by jurisdiction. See discussion below for additional information regarding our regulatory liabilities related to federal income tax rate changes.

Regulatory assets in our consolidated balance sheets, as authorized by various regulatory authorities, are probable of recovery. Base rates and certain riders are designed to provide a recovery of costs during the period such rates are in effect, but do not generally provide for a return on investment for amounts we have deferred as regulatory assets. All of our regulatory assets are subject to review by the respective regulatory authorities during future regulatory proceedings. We are not aware of any evidence that these costs will not be recoverable through either riders or base rates, and we believe that we will be able to recover such costs consistent with our historical recoveries.

Winter weather event costs - In February 2021, the U.S. experienced Winter Storm Uri, a historic winter weather event impacting supply, market pricing and demand for natural gas in a number of states, including our service territories of Kansas, Oklahoma, and Texas. During this time, the governors of Kansas, Oklahoma, and Texas each declared a state of emergency, and certain regulatory agencies issued emergency orders that impacted the utility and natural gas industries, including statewide utility curtailment programs and orders requiring jurisdictional natural gas and electric utilities to do all things possible and necessary to ensure that natural gas and electricity utility services continued to be provided to their customers. Due to the historic nature of this winter weather event, we experienced unforeseeable and unprecedented market pricing for natural gas in our Kansas, Oklahoma, and Texas jurisdictions, which resulted in aggregated natural gas purchases for the month of February 2021 of approximately $2.1 billion.

On February 16, 2021, the OCC approved an emergency order (i) directing natural gas and electric utilities to prioritize deliveries of natural gas and electricity for services necessary for life, health, and public safety, and of natural gas to electric generation facilities that serve human needs customers, and (ii) directing local utilities to communicate with their customers in order to reduce all non-essential energy consumption, and to reduce load in a safe and reasonable manner. The OCC order recognized that the severe weather conditions resulted in increased commodity prices for both gas and electric utilities, along with issues relating to commodity acquisition, line pressure, and supply shortages. The OCC order expired on February 20, 2021.

In response to a motion filed by Oklahoma Natural Gas, on March 2, 2021, the OCC issued an order stating that Oklahoma Natural Gas shall defer to a regulatory asset the extraordinary costs associated with this unprecedented winter weather event, including commodity costs, operational costs and carrying costs. The order further states that after all deferred costs have been accumulated and recorded, Oklahoma Natural Gas shall file a compliance report detailing the extent of such costs incurred. The order also provided that recovery of the deferred costs will be addressed in a future proceeding that will include a prudence review.

In April 2021, a bill permitting the state to pursue securitized financing of extraordinary expenses, such as fuel costs, financing costs and other operational costs incurred by regulated utilities during extreme weather events, was signed into law by the Oklahoma governor. This bill gives the OCC the authority to approve amounts to be recovered from the issuance of ratepayer-backed securitized bonds by the ODFA.

On April 29, 2021, Oklahoma Natural Gas submitted an initial application requesting a financing order pursuant to this legislation. On July 30, 2021, Oklahoma Natural Gas filed a supplemental motion with its compliance report pursuant to the March 2, 2021 order from the OCC detailing the extent of extraordinary costs incurred and all required components pursuant to the legislation for the issuance of a financing order, which includes a proposed period of 20 years over which these costs will be collected from customers. On October 4, 2021, the Public Utility Division of the OCC filed responsive testimony recommending that a financing order for securitization be approved. A joint stipulation and settlement was filed on November 18, 2021, ahead of the hearing before the administrative law judge on November 22, 2021. The joint stipulation and settlement agreement includes an agreement that a financing order should be issued to recover through securitization all extreme gas purchase and extraordinary costs over a 25-year period. At the hearing on November 22, 2021, the administrative law judge recommended approval of the joint stipulation and settlement agreement. On January 25, 2022, the OCC approved a financing order, which reflected the terms of the settlement agreement. Following the issuance of the financing order, there is a 30-day period during which parties to our application may appeal the financing order to the Oklahoma Supreme Court. The securitization legislation allows the ODFA 24 months to complete the process to issue the securitized bonds; however, the financing order requests the ODFA to issue bonds and provide the net proceeds to Oklahoma Natural Gas as soon as feasible, but no later than December 31, 2022. At December 31, 2021, Oklahoma Natural Gas has deferred approximately $1.3 billion in extraordinary costs attributable to Winter Storm Uri.

On February 15, 2021, the KCC issued an emergency order (i) directing all jurisdictional natural gas and electric utilities to coordinate efforts and take all reasonably feasible, lawful, and appropriate actions to ensure adequate delivery of natural gas and electricity to interconnected, non-jurisdictional utilities in Kansas, (ii) requiring jurisdictional natural gas and electric utilities to do all things possible and necessary to ensure that natural gas and electricity utility services continued to be provided to their customers in Kansas, and (iii) allowing those electric and natural gas distribution utilities who incur extraordinary costs to ensure their customers and other interconnected customers continued to receive utility service during this unprecedented cold weather event to defer those costs and carrying costs to a regulatory asset account. Each jurisdictional utility was required to file a compliance report detailing the extent of such costs incurred and presenting a plan to minimize the financial impacts of this event on ratepayers over a reasonable time frame. These costs were subject to review for reasonableness and accuracy in future regulatory proceedings. In March 2021, the KCC issued an order adopting the KCC staff's recommendation to open company-specific dockets to accept each utility's filing of financial impact compliance reports and permit the KCC staff to conduct a review of the utility's compliance report and its actions during the winter weather event. In April 2021, a bill permitting the utilities to pursue securitization to finance extraordinary expenses incurred during extreme weather events, was signed into law by the Kansas governor. The bill gives the KCC the authority to oversee and authorize the issuance of ratepayer-backed securitized bonds issued by a public utility.

In May 2021, Kansas Gas Service filed a motion in its company-specific docket opened by the KCC, requesting a limited waiver of the penalty provisions of its tariff to eliminate the multipliers in the penalty calculation when calculating the penalties to assess on marketers and individually-balanced transportation customers for their unauthorized natural gas usage during Winter Storm Uri. In October 2021, a nonunanimous settlement agreement was filed with the KCC to reach a resolution on these penalties. Prior to a hearing on the amended settlement in January 2022, all parties reached a unanimous settlement, which was filed with a motion requesting approval of the unanimous settlement. Under the terms of the amended unanimous settlement, if approved, the carrying charge on assessed penalties was reduced to two percent, consistent with the nonunanimous agreement in the financial docket. Any amounts collected from these penalties would reduce the regulatory asset for the winter weather event by no more than $52.4 million. A hearing on the settlement was held on February 4, 2022. The KCC has until March 7, 2022, to issue an order on the motion.

In July 2021, Kansas Gas Service submitted its financial plan to the KCC as required by the company-specific docket opened by the KCC in March 2021. The plan includes a proposal to issue securitized bonds to recover the extraordinary costs resulting from Winter Storm Uri from its customers over a period of either 5, 7, or 10 years. In November 2021, a nonunanimous settlement agreement was filed with the KCC that would allow Kansas Gas Service to recover extraordinary costs as of October 31, 2021, net of any penalties recovered from marketers and individually-balanced transportation customers, plus carrying costs calculated at two percent. Subsequently, all parties reached agreement on the settlement's terms which resulted in the nonunanimous agreement becoming a unanimous settlement agreement. The extraordinary costs, other than purchased gas costs, will be trued-up and validated. The settlement agreement supports Kansas Gas Service seeking a financing order from the KCC for the issuance of securitized utility tariff bonds. The KCC issued an order approving the unanimous settlement agreement on February 8, 2022. Kansas Gas Service expects to file an application, in a separate proceeding, requesting a financing order in the first quarter of 2022. The KCC will have 180 days from the date of the filing to consider Kansas Gas Service's application. If the KCC approves the financing order, we can begin the process to issue the securitized bonds. At December 31, 2021, Kansas Gas Service has deferred approximately $388.3 million in extraordinary costs associated with Winter Storm Uri and has not collected any penalties from marketers or individually-balanced transportation customers.

On February 13, 2021, the RRC issued a Notice to Local Distribution Companies acknowledging that due to the demand for natural gas expected during the upcoming winter weather event, natural gas utility LDCs may be required to pay extraordinarily high prices in the market for natural gas and may be subjected to other extraordinary costs when responding to the event. The RRC also encouraged natural gas utilities to continue to work to ensure that the citizens of the State of Texas were provided with safe and reliable natural gas service. To partially defer and reduce the impact on customers for these costs that ultimately are reflected in customer bills, the RRC authorized LDCs to record a regulatory asset to account for the extraordinary costs associated with this winter weather event, including but not limited to gas cost and other costs related to the procurement and transportation of gas supply. These costs will be subject to review for reasonableness and accuracy in future regulatory proceedings.

In June 2021, a bill permitting the state to pursue securitized financing of extraordinary expenses, such as fuel costs, financing costs and other operational costs incurred by utilities during Winter Storm Uri, was signed into law by the Texas governor. This bill gives the RRC the authority to approve amounts to be recovered from the issuance of ratepayer-backed securitized bonds by the TPFA. Pursuant to this legislation and a June 17, 2021 RRC Notice to Gas Utilities, Texas Gas Service submitted an application to the RRC on July 30, 2021, for an order authorizing the amount of extraordinary costs for recovery and other such specifications necessary for the issuance of securitized bonds.

In October 2021, Texas Gas Service, the other natural gas utilities in Texas participating in the securitization process, the staff of the RRC and all intervenors filed a unanimous settlement agreement with the RRC. The settlement agreement provides that all costs to purchase natural gas during Winter Storm Uri by Texas Gas Service were reasonable, necessary and prudently incurred. Texas Gas Service agreed to reduce its regulatory asset amount to be securitized by the amount of extraordinary costs attributable to the West Texas service area, which will be recovered through a separate surcharge over a three-year period. The unanimous settlement agreement was approved by the RRC in November 2021.

On February 8, 2022, the RRC issued a single financing order for Texas Gas Service and other natural gas utilities in Texas participating in the securitization process, which included a determination that the approved costs will be collected from customers over a period of not more than 30 years. The TPFA formed the Texas Natural Gas Securitization Finance Corporation, a new independent public authority, for purposes of issuing the securitized bonds and has begun the process to issue the securitized bonds. At December 31, 2021, Texas Gas Service has deferred approximately $256.6 million in extraordinary costs associated with Winter Storm Uri, which includes $59.5 million attributable to the West Texas service area. Pursuant to the approved settlement order, Texas Gas Service began collecting the extraordinary costs, including carrying costs, associated with Winter Storm Uri attributable to the West Texas service area from those customers in January 2022.

We intend to use the proceeds of these securitized bonds to satisfy our senior notes coming due in March 2023.

In accordance with these regulatory orders associated with the winter weather event, we have deferred approximately $2.0 billion in extraordinary costs for natural gas purchases, related financing and carrying costs and other operational costs, which includes $1.3 billion of costs attributable to Oklahoma Natural Gas customers, $388.3 million of costs attributable to Kansas Gas Service customers and $256.6 million of costs attributable to Texas Gas Service customers, including $59.5 million attributable to the West Texas service area that will be recovered over a three year period beginning January 1, 2022. The amounts deferred at December 31, 2021, include invoiced costs for natural gas purchases that have not been paid as we work with our suppliers to resolve discrepancies in invoiced amounts. The amounts deferred may be adjusted as the differences are resolved. In addition, as a result of Winter Storm Uri, we were assessed penalties as a result of over- or under-deliveries of natural gas during periods that operational flow orders were imposed on us. Regarding Kansas Gas Service's motion requesting a limited waiver of penalty provisions of its tariff, if the nonunanimous settlement agreement filed with the KCC is approved, we anticipate assessing penalties on the marketers and individually-balanced transport customers we serve or their agents. Amounts recorded reflect management's best estimate of the amounts we may pay or receive and may be adjusted in future periods as the disposition of such penalties is determined. As these amounts are related to the extraordinary gas purchase costs associated with Winter Storm Uri, which are deferred, future adjustments to the amounts we have deferred are not expected to have a material impact on earnings.

Other regulatory assets and liabilities - Purchased-gas costs represent the natural gas costs that have been over- or under-recovered from customers through the purchased-gas cost adjustment mechanisms, and includes natural gas utilized in our operations and premiums paid and any cash settlements received from our purchased natural gas call options.

The OCC, KCC and regulatory authorities in Texas have approved the recovery of pension costs and other postemployment benefits costs through rates for Oklahoma Natural Gas, Kansas Gas Service and Texas Gas Service, respectively. The costs recovered through rates are based on the net periodic benefit cost for defined benefit pension and other postemployment costs. Differences, if any, between the net periodic benefit cost, net of deferrals, and the amount recovered through rates are reflected in earnings. We historically have recovered defined benefit pension and other postemployment benefit costs through rates. We believe it is probable that regulators will continue to include the net periodic pension and other postemployment benefit costs in our cost of service.

We amortize reacquired debt costs in accordance with the accounting guidelines prescribed by the OCC and KCC.

Weather normalization represents revenue over- or under- recovered through the WNA rider in Kansas. This amount is deferred as a regulatory asset or liability for a 12-month period. Kansas Gas Service then applies an adjustment to the customers' bills for 12 months to refund the over-collected revenue or bill the under-collected revenue.

Ad-valorem tax represents an increase or decrease in Kansas Gas Service's taxes above or below the amount approved in base rates. This amount is deferred as a regulatory asset or liability for a 12-month period. Kansas Gas Service then applies an adjustment to the customers' bills for 12 months to refund the over-collected revenue or bill the under-collected revenue.

The customer credit deferrals and the noncurrent regulatory liability for income tax rate changes represents deferral of the effects of enacted federal and state income tax rate changes on our ADIT and the effects of these changes on our rates. At December 31, 2021, the noncurrent regulatory liability for income tax rate changes includes the reclassification of $29.3 million of deferred taxes related to the reduction of the state income tax rate in Oklahoma. Additionally, it includes the reclassification of $84.2 million of deferred taxes related to the elimination of state income tax for utilities in Kansas at December 31, 2021 and 2020. See Note 14 for additional information regarding the impact of income tax rate changes during the year ended December 31, 2021.

See Note 16 for additional information regarding our regulatory assets for MGP remediation costs.

We have received accounting orders in each of our jurisdictions authorizing us to accumulate and defer for regulatory purposes certain incremental costs incurred, including bad debt expenses, and certain lost revenues, net of offsetting expense reductions associated with COVID-19. Pursuant to these orders, the recovery of any net incremental costs and lost revenues will be determined in future rate cases or alternative rate recovery filings in each jurisdiction. For financial reporting purposes, any amounts deferred as a regulatory asset for future recovery under these accounting orders must be probable of recovery. At December 31, 2021, no regulatory assets have been recorded. We continue to evaluate the impacts of COVID-19 on our business and will record regulatory assets for financial reporting purposes at such time as recovery is deemed probable.

Recovery through rates resulted in amortization of regulatory assets of approximately $5.5 million, $3.2 million and $2.5 million for the years ended December 31, 2021, 2020 and 2019, respectively.

11. PROPERTY, PLANT AND EQUIPMENT

The following table sets forth our property, plant and equipment by property type, for the periods indicated:

	December 31, 2021	December 31, 2020
	(Thousands of dollars)	
Natural gas distribution pipelines and related equipment	**$ 5,836,066**	$ 5,517,488
Natural gas transmission pipelines and related equipment	**624,528**	586,360
General plant and other	**712,659**	657,037
Construction work in process	**101,015**	77,718
Property, plant and equipment	**7,274,268**	6,838,603
Accumulated depreciation and amortization	**(2,083,433)**	(1,971,546)
Net property, plant and equipment	**$ 5,190,835**	$ 4,867,057

We compute depreciation expense by applying composite, straight-line rates of approximately 2.5 percent to 3.5 percent that were approved by various regulatory authorities.

We recorded capitalized interest of $4.2 million, $4.2 million and $4.6 million for the years ended December 31, 2021, 2020 and 2019, respectively. We incurred liabilities for construction work in process that had not been paid at December 31, 2021, 2020 and 2019 of $25.6 million, $24.3 million and $20.9 million, respectively. Such amounts are not included in capital expenditures or in the change of working capital items on our Consolidated Statements of Cash Flows.

12. SHARE-BASED PAYMENTS

The ECP provides for the granting of stock-based compensation, including incentive stock options, nonstatutory stock options, stock bonus awards, restricted stock awards, restricted stock unit awards, performance stock awards and performance unit awards to eligible employees and the granting of stock awards to nonemployee directors. At December 31, 2021, we have 4.3 million shares of common stock reserved for issuance under the ECP. At December 31, 2021, we had approximately 1.8 million shares available for issuance under the ECP, which reflect shares issued and estimated shares expected to be issued upon vesting of outstanding awards granted under the plan, less forfeitures. The plan allows for the deferral of awards granted in stock or cash, in accordance with the Code section 409A requirements.

Compensation expense for our ECP share-based payment plans was $7.5 million, net of tax benefits of $2.5 million, for 2021, $7.0 million, net of tax benefits of $2.3 million, for 2020, and $6.8 million, net of tax benefits of $2.2 million, for 2019.

Restricted Stock Unit Awards - We have granted restricted stock unit awards to key employees that vest over a service period of generally three years and entitle the grantee to receive shares of our common stock. Restricted stock unit awards granted accrue dividend equivalents in the form of additional restricted stock units prior to vesting. Restricted stock unit awards are measured at fair value as if they were vested and issued on the grant date and adjusted for estimated forfeitures. Compensation expense is recognized on a straight-line basis over the vesting period of the award. A forfeiture rate of 3 percent per year based on historical forfeitures under our share-based payment plans is used.

Performance Stock Unit Awards - We have granted performance stock unit awards to key employees. The shares of common stock underlying the performance stock units vest at the expiration of a service period of generally three years if certain performance criteria are met by us as determined by the Executive Compensation Committee of the Board of Directors. Upon vesting, a holder of performance stock units is entitled to receive a number of shares of common stock equal to a percentage (0 percent to 200 percent) of the performance stock units granted, based on our total shareholder return over the vesting period, compared with the total shareholder return of a peer group of other utilities over the same period.

If paid, the outstanding performance stock unit awards entitle the grantee to receive shares of our common stock. The outstanding performance stock unit awards are equity awards with a market-based condition, which results in the compensation expense for these awards being recognized on a straight-line basis over the requisite service period, provided that the requisite service period is fulfilled, regardless of when, if ever, the market condition is satisfied. The performance stock unit awards granted accrue dividend equivalents in the form of additional performance stock units prior to vesting. The fair value of these performance stock units was estimated on the grant date based on a Monte Carlo model. The compensation expense on these awards will only be adjusted for forfeitures. A forfeiture rate of 3 percent per year based on historical forfeitures under our share-based payment plans is used.

Restricted Stock Unit Award Activity

As of December 31, 2021, there was $3.6 million of total unrecognized compensation expense related to the nonvested restricted stock unit awards, which is expected to be recognized over a weighted-average period of 1.7 years. The following tables set forth activity and various statistics for restricted stock unit awards outstanding under the respective plans for the period indicated:

	Number of Units		Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2020	99,800	$	82.29
Granted	**50,353**	**$**	**72.69**
Vested	**(42,821)**	**$**	**71.67**
Forfeited	**(13,058)**	**$**	**81.07**
Nonvested at December 31, 2021	**94,274**	**$**	**82.16**

		2021		2020		2019
Weighted-average grant date fair value (per share)	**$**	**72.69**	$	96.21	$	83.94
Fair value of shares granted (thousands of dollars)	**$**	**3,660**	$	3,005	$	3,001

For the years ended December 31, 2021, 2020 and 2019, the fair value of restricted stock vested was $3.4 million, $3.3 million, and $3.3 million, respectively.

Performance Stock Unit Award Activity

As of December 31, 2021, there was $6.6 million of total unrecognized compensation expense related to the nonvested performance stock unit awards, which is expected to be recognized over a weighted-average period of 1.7 years. The following tables set forth activity and various statistics related to our performance stock unit awards and the assumptions used by us in the valuations of the 2021, 2020 and 2019 grants at the grant date:

	Number of Units		Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2020	208,520	$	87.97
Granted	**107,381**	**$**	**82.51**
Vested	**(76,483)**	**$**	**74.04**
Forfeited	**(40,819)**	**$**	**89.19**
Nonvested at December 31, 2021	**198,599**	**$**	**90.13**

	2021	2020	2019
Volatility (a)	**32.70%**	16.40%	18.70%
Dividend yield	**3.19%**	2.25%	2.38%
Risk-free interest rate (b)	**0.20%**	1.40%	2.50%

(a) - Volatility based on historical volatility over three years using daily stock price observations of our peer utilities.
(b) - Using 3-year treasury.

		2021		2020		2019
Weighted-average grant date fair value (per share)	$	82.51	$	102.77	$	89.86
Fair value of shares granted (thousands of dollars)	$	8,860	$	6,502	$	6,401

For the years ended December 31, 2021, 2020 and 2019, the fair value of performance stock vested was $7.2 million, $10.2 million, and $12.7 million, respectively.

Employee Stock Purchase Plan

We have reserved a total of 1.25 million shares of common stock for issuance under our ESPP. Employees can choose to have up to 10 percent of their annual base pay withheld to purchase our common stock, subject to terms and limitations of the plan. The purchase price of the stock is 85 percent of the lower of the average market price of our common stock on the grant date or exercise date. Approximately 44 percent, 50 percent and 44 percent of employees participated in the plan in 2021, 2020 and 2019, respectively. For the years ended December 31, 2021, 2020 and 2019, employees purchased 89,240, 92,507, and 71,613 shares, respectively, at an average price of $63.41, $64.77 and $71.42, respectively.

Compensation expense, before taxes, was $1.1 million, $1.1 million and $1.5 million in 2021, 2020 and 2019, respectively.

13. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension and Other Postemployment Benefit Plans

Defined Benefit Pension Plans - We have a defined benefit pension plan and a supplemental executive retirement plan, both of which are closed to new participants. Certain employees of the Texas Gas Service division are entitled to benefits under a frozen cash-balance pension plan. We fund our defined benefit pension costs at a level needed to maintain or exceed the minimum funding levels required by the Employee Retirement Income Security Act of 1974, as amended, and the Pension Protection Act of 2006.

Other Postemployment Benefit Plans - We sponsor health and welfare plans that provide postemployment medical and life insurance benefits to certain employees who retire with at least five years of service. The postemployment medical plan is contributory based on hire date, age and years of service, with retiree contributions adjusted periodically, and contains other cost-sharing features such as deductibles and coinsurance.

Actuarial Assumptions - The following table sets forth the weighted-average assumptions used to determine benefit obligations for pension and postemployment benefits for the periods indicated:

	December 31,	
	2021	**2020**
Discount rate - pension plans	**3.05%**	2.80%
Discount rate - other postemployment plans	**3.00%**	2.70%
Compensation increase rate	**3.10% - 5.00%**	3.10% - 3.90%

The following table sets forth the weighted-average assumptions used by us to determine the periodic benefit costs for the periods indicated:

	Years Ended December 31,		
	2021	**2020**	**2019**
Discount rate - pension plans	**2.80%**	3.50%	4.40%
Discount rate - other postemployment plans	**2.70%**	3.40%	4.40%
Expected long-term return on plan assets - pension plans	**7.15%**	7.20%	7.20%
Expected long-term return on plan assets - other postemployment plans	**7.50%**	7.65%	7.35%
Compensation increase rate	**3.10% - 3.90%**	3.10% - 4.00%	3.20% - 4.00%

We determine our discount rates annually. We estimate our discount rate based upon a comparison of the expected cash flows associated with our future payments under our defined benefit pension and other postemployment obligations to a hypothetical bond portfolio created using high-quality bonds that closely match expected cash flows. Bond portfolios are developed by selecting a bond for each of the next 60 years based on the maturity dates of the bonds. Bonds selected to be included in the portfolios are only those rated by Moody's as AA- or better and exclude callable bonds, bonds with less than a minimum issue size, yield outliers and other filtering criteria to remove unsuitable bonds.

We determine our overall expected long-term rate of return on plan assets, based on our review of historical returns and economic growth models. We update our assumed mortality rates to incorporate new tables issued by the Society of Actuaries as needed.

Regulatory Treatment - The OCC, KCC and regulatory authorities in Texas have approved the recovery of pension costs and other postemployment benefits costs through rates for Oklahoma Natural Gas, Kansas Gas Service and Texas Gas Service, respectively. The costs recovered through rates are based on current funding requirements and the net periodic benefit cost for defined benefit pension and other postemployment costs. Differences, if any, between the net periodic benefit cost, net of deferrals, and the amount recovered through rates are reflected in earnings.

We historically have recovered defined benefit pension and other postemployment benefit costs through rates. We believe it is probable that regulators will continue to include the net periodic pension and other postemployment benefit costs in our cost of service.

We capitalize all eligible service cost and non-service cost components pursuant to the accounting requirements of ASC Topic 980 (Regulated Operations) for rate-regulated entities, as these costs are authorized by our regulators to be included in capitalized costs. Our consolidated balance sheets reflect the capitalized non-service cost components as a regulatory asset. We have recognized a regulatory asset of $6.1 million and $6.0 million as of December 31, 2021 and December 31, 2020, respectively. See Note 10 for additional information.

Obligations and Funded Status - The following table sets forth our defined benefit pension and other postemployment benefit plans, benefit obligations and fair value of plan assets for the periods indicated:

	Pension Benefits		Other Postemployment Benefits	
	December 31,		December 31,	
	2021	2020	2021	2020
Changes in Benefit Obligation	*(Thousands of dollars)*			
Benefit obligation, beginning of period	**$ 1,077,641**	$ 1,001,368	**$ 239,530**	$ 230,490
Service cost	**13,811**	12,869	**1,587**	1,692
Interest cost	**29,458**	34,179	**6,251**	7,557
Plan participants' contributions	**—**	—	**3,226**	3,500
Actuarial loss (gain)	**(19,587)**	91,566	**(8,894)**	14,013
Benefits paid	**(51,333)**	(62,341)	**(18,894)**	(17,722)
Benefit obligation, end of period	**1,049,990**	1,077,641	**222,806**	239,530
Change in Plan Assets				
Fair value of plan assets, beginning of period	**987,583**	907,974	**230,895**	207,182
Actual return (loss) on plan assets	**75,999**	140,939	**14,786**	35,837
Employer contributions	**995**	1,011	**1,981**	2,098
Plan participants' contributions	**—**	—	**3,226**	3,500
Benefits paid	**(51,333)**	(62,341)	**(18,894)**	(17,722)
Settlements	**—**	—	**—**	—
Fair value of assets, end of period	**1,013,244**	987,583	**231,994**	230,895
Benefit Asset (Obligation), net at December 31	**$ (36,746)**	$ (90,058)	**$ 9,188**	$ (8,635)
Other noncurrent assets	**—**	—	**9,188**	—
Current liabilities	**(1,521)**	(1,056)	**—**	—
Noncurrent liabilities	**(35,225)**	(89,002)	**—**	(8,635)
Benefit Asset (Obligation), net at December 31	**$ (36,746)**	$ (90,058)	**$ 9,188**	$ (8,635)

The accumulated benefit obligation for our defined benefit pension plans was $1.0 billion and $1.0 billion at December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, the accumulated benefit obligations of each of our plans exceeded the fair value of the related plan's assets.

For the year ended December 31, 2021, the pension benefit obligations experienced an actuarial gain of $19.6 million primarily due to the impact of increases in the discount rates used to calculate the benefit obligations. For the year ended December 31, 2020, the pension benefit obligations experienced an actuarial loss of $91.6 million primarily due to the impact of decreases in the discount rates used to calculate the benefit obligations. Benefits paid for 2020 reflects $12.5 million of lump sum payments to certain terminated-vested participants.

In 2022, our contributions are expected to be $1.5 million to our defined benefit pension plans, and no contributions are expected to be made to our other postemployment benefit plans.

Components of Net Periodic Benefit Cost - The following tables set forth the components of net periodic benefit cost, prior to regulatory deferrals, for our defined benefit pension and other postemployment benefit plans for the period indicated:

	Pension Benefits		
	Year Ended December 31,		
	2021	**2020**	**2019**
	(Thousands of dollars)		
Components of net periodic benefit cost			
Service cost	**$ 13,811**	$ 12,869	$ 12,030
Interest cost (a)	**29,458**	34,179	40,670
Expected return on assets (a)	**(62,382)**	(61,119)	(61,939)
Amortization of net loss (a)	**45,523**	42,319	33,039
Net periodic benefit cost	**$ 26,410**	$ 28,248	$ 23,800

(a) These amounts, net of any amounts capitalized as a regulatory asset since adoption of ASU 2017-07 on January 1, 2018, have been recognized as other income (expense), net in the Consolidated Statements of Income. See Note 15 for additional detail of our other income (expense), net.

	Other Postemployment Benefits		
	Year Ended December 31,		
	2021	**2020**	**2019**
	(Thousands of dollars)		
Components of net periodic benefit cost			
Service cost	**$ 1,587**	$ 1,692	$ 1,734
Interest cost (a)	**6,251**	7,557	9,318
Expected return on assets (a)	**(16,807)**	(15,469)	(12,586)
Amortization of unrecognized prior service cost (a)	**(279)**	(117)	(673)
Amortization of net loss (a)	**373**	173	2,244
Net periodic benefit cost (credit)	**$ (8,875)**	$ (6,164)	$ 37

(a) These amounts, net of any amounts capitalized as a regulatory asset since adoption of ASU 2017-07 on January 1, 2018, have been recognized as other income (expense), net in the Consolidated Statements of Income. See Note 15 for additional detail of our other income (expense), net.

Other Comprehensive Income (Loss) - The following table sets forth the amounts recognized in other comprehensive income (loss), net of regulatory deferrals, related to our defined benefit pension benefits for the period indicated:

	Pension Benefits		
	Year Ended December 31,		
	2021	2020	2019
	(Thousands of dollars)		
Net gain (loss) arising during the period	$ **67**	$ (2,519)	$ (2,766)
Amortization of loss	**1,562**	1,192	852
Deferred income taxes	**(379)**	289	479
Total recognized in other comprehensive income (loss)	$ **1,250**	$ (1,038)	$ (1,435)

Due to our regulatory deferrals, there were no amounts recognized in other comprehensive income (loss) related to our other postemployment benefits for the periods presented.

The tables below set forth the amounts in accumulated other comprehensive loss that had not yet been recognized as components of net periodic benefit expense for the periods indicated:

	Pension Benefits	
	December 31,	
	2021	2020
	(Thousands of dollars)	
Accumulated loss	$ **(272,332)**	$ (351,059)
Accumulated other comprehensive loss before regulatory assets	**(272,332)**	(351,059)
Regulatory asset for regulated entities	**264,027**	341,125
Accumulated other comprehensive loss after regulatory assets	**(8,305)**	(9,934)
Deferred income taxes	**1,778**	2,157
Accumulated other comprehensive loss, net of tax	$ **(6,527)**	$ (7,777)

	Other Postemployment Benefits	
	December 31,	
	2021	2020
	(Thousands of dollars)	
Prior service credit	$ **(194)**	$ 85
Accumulated loss	**(5,887)**	(13,134)
Accumulated other comprehensive loss before regulatory assets	$ **(6,081)**	$ (13,049)
Regulatory asset for regulated entities	**6,081**	13,049
Accumulated other comprehensive loss after regulatory assets	$ **—**	$ —

Health Care Cost Trend Rates - The following table sets forth the assumed health care cost-trend rates for the periods indicated:

	2021	2020
Health care cost-trend rate assumed for next year	**6.00%**	6.25%
Rate to which the cost-trend rate is assumed to decline (the ultimate trend rate)	**4.50%**	4.50%
Year that the rate reaches the ultimate trend rate	**2028**	2026

Plan Assets - Our investment strategy is to invest plan assets in accordance with sound investment practices that emphasize long-term fundamentals. The goal of this strategy is to maximize investment returns while managing risk in order to meet the plan's current and projected financial obligations. To achieve this strategy, we have established a liability-driven investment strategy to change the allocations as the funded status of the defined benefit pension plan increases. The plan's investments include a diverse blend of various domestic and international equities, investment-grade debt securities which mirror the cash flows of our liability, insurance contracts and alternative investments. The current target allocation for the assets of our defined benefit pension plan is as follows:

Investment-grade bonds	60.0 %
U.S. large-cap equities	14.0 %
Alternative investments	10.0 %
Developed foreign large-cap equities	7.0 %
Mid-cap equities	5.0 %
Emerging markets equities	1.0 %
Small-cap equities	3.0 %
Total	100 %

As part of our risk management for the plans, minimums and maximums have been set for each of the asset classes listed above. All investment managers for the plan are subject to certain restrictions on the securities they purchase and, with the exception of indexing purposes, are prohibited from owning our stock.

The current target allocation for the assets of our other postemployment benefits plan is 65 percent fixed income securities and 35 percent equity securities.

The following tables set forth our pension benefits and other postemployment benefits plan assets by fair value category as of the measurement date:

	Pension Benefits			
	December 31, 2021			
Asset Category	**Level 1**	**Level 2**	**Level 3**	**Total**
	(Thousands of dollars)			
Investments:				
Equity securities (a)	$ **223,871**	$ **—**	$ **—**	$ **223,871**
Government obligations	**—**	**205,741**	**—**	**205,741**
Corporate obligations (b)	**—**	**440,445**	**—**	**440,445**
Cash and money market funds (c)	**3,864**	**30,546**	**—**	**34,410**
Insurance contracts and group annuity contracts	**—**	**—**	**17,301**	**17,301**
Other investments (d)	**—**	**20**	**91,456**	**91,476**
Total assets	$ **227,735**	$ **676,752**	$ **108,757**	$ **1,013,244**

(a) - This category represents securities of the various market sectors from diverse industries.
(b) - This category represents bonds from diverse industries.
(c) - This category primarily represents money market funds.
(d) - This category represents alternative investments such as hedge funds and other financial instruments.

	Pension Benefits			
	December 31, 2020			
Asset Category	**Level 1**	**Level 2**	**Level 3**	**Total**
	(Thousands of dollars)			
Investments:				
Equity securities (a)	$ 392,639	$ 35,454	$ —	$ 428,093
Government obligations	—	78,080	—	78,080
Corporate obligations (b)	—	343,118	—	343,118
Cash and money market funds (c)	1,589	23,311	—	24,900
Insurance contracts and group annuity contracts	—	—	24,603	24,603
Other investments (d)	—	1,155	87,634	88,789
Total assets	$ 394,228	$ 481,118	$ 112,237	$ 987,583

(a) - This category represents securities of the various market sectors from diverse industries.
(b) - This category represents bonds from diverse industries.
(c) - This category primarily represents money market funds.
(d) - This category represents alternative investments such as hedge funds and other financial instruments.

Asset Category	Other Postemployment Benefits December 31, 2021 Level 1	Level 2	Level 3	Total
	(Thousands of dollars)			
Investments:				
Equity securities (a)	**$ 25,577**	**$ —**	**$ —**	**$ 25,577**
Government obligations	**—**	**41,366**	**—**	**41,366**
Corporate obligations (b)	**—**	**41,601**	**—**	**41,601**
Cash and money market funds (c)	**542**	**12,990**	**—**	**13,532**
Insurance contracts and group annuity contracts (d)	**—**	**109,918**	**—**	**109,918**
Total assets	**$ 26,119**	**$ 205,875**	**$ —**	**$ 231,994**

(a) - This category represents securities of the various market sectors from diverse industries.
(b) - This category represents bonds from diverse industries.
(c) - This category primarily represents money market funds.
(d) - This category includes equity securities and bonds held in a captive insurance product.

Asset Category	Other Postemployment Benefits December 31, 2020 Level 1	Level 2	Level 3	Total
	(Thousands of dollars)			
Investments:				
Equity securities (a)	$ 73,578	$ —	$ —	$ 73,578
Government obligations	—	—	—	—
Corporate obligations (b)	—	39,115	—	39,115
Cash and money market funds (c)	52	8,071	—	8,123
Insurance contracts and group annuity contracts (d)	—	110,079	—	110,079
Total assets	$ 73,630	$ 157,265	$ —	$ 230,895

(a) - This category represents securities of the various market sectors from diverse industries.
(b) - This category represents bonds from diverse industries.
(c) - This category primarily represents money market funds.
(d) - This category includes equity securities and bonds held in a captive insurance product.

Insurance contracts and group annuity contracts include investments in the Immediate Participation Guarantee Fund ("IPG Fund") with John Hancock and are valued at fair value. John Hancock invests the IPG Fund in its general fund portfolio. The contract value of the IPG Fund at the end of the year, which approximates fair value, is estimated. The difference between this estimated balance and the actual balance, as subsequently determined by John Hancock, is charged or credited to the net assets of the plans.

Certain investments that are categorized as money market funds in Level 2 and "Other investments" in Level 3 represent alternative investments such as hedge funds and other financial instruments measured using the net asset value per share (or its equivalent) practical expedient.

The following tables set forth additional information regarding commitments and redemption limitations of these other investments at the periods indicated:

	December 31, 2021 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	(in thousands)			*(in days)*
Grosvenor Registered Multi Limited Partnership	**$ 44,818**	**$ —**	**quarterly**	**65**
K2 Institutional Investors II Limited Partnership	**$ 46,638**	**$ —**	**quarterly**	**91**

	December 31, 2020			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	(in thousands)			*(in days)*
Grosvenor Registered Multi Limited Partnership	$ 42,632	$ —	quarterly	65
K2 Institutional Investors II Limited Partnership	$ 45,002	$ —	quarterly	91

The following table sets forth the reconciliation of Level 3 fair value measurements of our pension plans for the periods indicated:

	Pension Benefits		
	Insurance Contracts	Other Investments	Total
	(Thousands of dollars)		
January 1, 2020	$ 25,988	$ 81,793	$ 107,781
Unrealized gains	1,764	4,849	6,613
Purchases	—	992	992
Settlements	(3,149)	—	(3,149)
December 31, 2020	$ 24,603	$ 87,634	$ 112,237
Unrealized gains	—	**1,625**	**1,625**
Unrealized losses	**(3,368)**	—	**(3,368)**
Purchases	—	**2,197**	**2,197**
Settlements	**(3,934)**	—	**(3,934)**
December 31, 2021	**$ 17,301**	**$ 91,456**	**$ 108,757**

Pension and Other Postemployment Benefit Payments - Benefit payments for our defined benefit pension and other postemployment benefit plans for the year ended December 31, 2021 were $51.3 million and $18.9 million, respectively. The following table sets forth the pension benefits and other postemployment benefits payments expected to be paid in 2022-2031:

	Pension Benefits	Other Postemployment Benefits
Benefits to be paid in:	*(Thousands of dollars)*	
2022	$ 52,936	$ 15,744
2023	$ 53,745	$ 15,571
2024	$ 54,440	$ 15,184
2025	$ 55,075	$ 14,940
2026	$ 55,852	$ 14,580
2027 through 2031	$ 283,344	$ 67,566

The expected benefits to be paid are based on the same assumptions used to measure our benefit obligation at December 31, 2021, and include estimated future employee service.

Other Employee Benefit Plans

401(k) Plan - We have a 401(k) plan which covers all full-time employees, and employee contributions are discretionary. We match 100 percent of each participant's eligible contribution up to 6 percent of eligible compensation, subject to certain limits. Our contributions to the plan were $14.3 million, $13.8 million and $12.8 million in 2021, 2020 and 2019, respectively.

Profit-Sharing Plan - We have a profit-sharing plan for all employees who do not participate in our defined benefit pension plan. We plan to make a contribution to the profit-sharing plan each quarter equal to 1 percent of each participant's eligible compensation during the quarter. Additional discretionary employer contributions may be made at the end of each year.

Employee contributions are not allowed under the plan. Our contributions to the plan were $9.9 million, $9.4 million and $8.5 million in 2021, 2020 and 2019, respectively. Effective December 30, 2021, our profit sharing plan was merged with and into our 401(k) Plan.

14. INCOME TAXES

The following table sets forth our provision for income taxes for the periods indicated:

	Years Ended December 31,		
	2021	**2020**	**2019**
	(Thousands of dollars)		
Current income tax provision (benefit)			
Federal	**$ (1,568)**	$ 20,129	$ 24,537
State	**(1,565)**	2,965	5,008
Total current income tax provision (benefit)	**(3,133)**	23,094	29,545
Deferred income tax provision			
Federal	**37,810**	10,757	8,375
State	**5,639**	7,728	4,932
Total deferred income tax provision	**43,449**	18,485	13,307
Total provision for income taxes	**$ 40,316**	$ 41,579	$ 42,852

The following table is a reconciliation of our income tax provision for the periods indicated:

	Years Ended December 31,		
	2021	**2020**	**2019**
	(Thousands of dollars)		
Income before income taxes	**$ 246,750**	$ 237,991	$ 229,601
Federal statutory income tax rate	**21 %**	21 %	21 %
Provision for federal income taxes	**51,817**	49,978	48,215
State income taxes, net of federal tax benefit	**4,074**	10,693	9,758
Amortization of EDIT regulatory liability	**(17,289)**	(17,031)	(12,828)
Tax benefit of employee share-based compensation	**(469)**	(1,489)	(2,116)
Other, net	**2,183**	(572)	(177)
Total provision for income taxes	**$ 40,316**	$ 41,579	$ 42,852

As of December 31, 2021, we have no uncertain tax positions. Changes in tax laws or tax rates are recognized in the financial reporting period that includes the enactment date. As a regulated entity, the change in ADIT resulting from a change in tax laws or tax rates is recorded as a regulatory liability and is subject to refund to our customers.

In May 2021, a bill amending the Oklahoma state income tax code was signed into law that reduced the state income tax rate to four percent from six percent beginning January 1, 2022. As a result of the enactment of this legislation, we remeasured our ADIT. As a regulated entity, the reduction in ADIT of $29.3 million was recorded as a regulatory liability. The impact of the change in the state income tax rate on Oklahoma Natural Gas' rates, as well as the timing and amount of the impact on the annual crediting mechanism for the EDIT regulatory liability, will be addressed during the processing of the March 15, 2022 PBRC filing.

In May 2020, a bill amending the Kansas state income tax code was signed into law that exempts public utilities regulated by the KCC from paying Kansas state income taxes beginning January 1, 2021. As a result of the enactment of this legislation, we remeasured our ADIT. As a regulated entity, the reduction in ADIT of $84.2 million was recorded as an EDIT regulatory liability and will be refunded to our customers. This adjustment had no material impact on our income tax expense and no impact on our cash flows for the years ended December 31, 2021 and 2020. The bill stipulates that, if requested by the utility, this EDIT will be returned to Kansas customers over a period of no less than 30 years, with the exact timing to be determined in our next general rate proceeding. In August 2020, Kansas Gas Service submitted an application to the KCC to reduce its base rates to reflect the elimination of Kansas state income taxes by approximately $4.9 million. In December 2020, the KCC approved the reduction, effective January 1, 2021.

The following table sets forth the tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and liabilities for the periods indicated:

	December 31, 2021	December 31, 2020
	(Thousands of dollars)	
Deferred tax assets		
Employee benefits and other accrued liabilities	**$ 11,126**	$ 28,127
Regulatory adjustments for enacted tax rate changes	**120,051**	121,738
Net operating loss	**424,861**	—
Lease obligation basis	**6,906**	9,319
Other	**12,597**	4,790
Total deferred tax assets	**575,541**	163,974
Deferred tax liabilities		
Excess of tax over book depreciation	**734,051**	717,492
Winter weather event costs	**421,070**	—
Purchased-gas cost adjustment - other	**37,433**	5,240
Other regulatory assets and liabilities, net	**71,541**	88,260
Right-of-use asset basis	**6,730**	9,788
Total deferred tax liabilities	**1,270,825**	820,780
Net deferred tax liabilities	**$ 695,284**	$ 656,806

We deduct our purchased gas costs for federal income tax purposes in the period they are paid. As a result of the impacts from Winter Storm Uri, we recorded a $421.1 million (tax effected) increase in our deferred tax liability and an increase in our net operating loss carryforward as of December 31, 2021. At December 31, 2021, we had $386.0 million (tax effected) of federal net operating loss carryforwards and $38.9 million (tax effected) of state net operating loss carryforwards available to offset future taxable income.

We have filed our consolidated federal and state income tax returns for years 2018, 2019 and 2020. We are no longer subject to income tax examination for years prior to 2018.

15. OTHER INCOME AND OTHER EXPENSE

The following table sets forth the components of other income and other expense for the periods indicated:

	Years Ended December 31, 2021	2020	2019
		(Thousands of dollars)	
Net periodic benefit cost other than service cost	**$ (3,930)**	$ (5,071)	$ (5,895)
Earnings on investments associated with nonqualified employee benefit plans	**3,699**	4,616	5,268
Other, net	**(2,976)**	(2,565)	(2,349)
Total other expense, net	**$ (3,207)**	$ (3,020)	$ (2,976)

16. COMMITMENTS AND CONTINGENCIES

Commitments - See Note 5 of the Notes to Consolidated Financial Statements in this Annual Report for discussion of operating leases.

COVID-19 - Throughout the COVID-19 pandemic, we have continued to provide essential services to our customers. We have implemented a comprehensive set of policies, procedures and guidelines to protect the safety of our employees, customers and communities. Safety protocols developed during the pandemic include remote work for our office-based employees, limiting direct contact with our customers and requiring the use of PPE and a self-assessment health screening mobile application.

Impacts on our results of operations as a result of COVID-19 include but are not limited to:

ONE Gas, Inc.
Financial Ratios
For the Year Ended December 31, 2021

	Utility Operations
Total debt to total capitalization	
Notes payable (includes commercial paper)	494,000
Current maturities of long-term debt	11
Current portion of capitalized lease obligations	-
Long-term debt	3,701,250
Capitalized lease obligation	-
Total off balance sheet debt	4,195,261
Notes payable (includes commercial paper)	494,000
Current maturities of long-term debt	11
Current portion of capitalized lease obligations	-
Long-term debt	3,701,250
Capitalized lease obligation	-
Total equity	2,349,532
Total capitalization	6,544,793
Total debt to total capitalization	**64%**
Funds from operations interest coverage	
Net income from continuing operations	206,434
Depreciation & amortization	207,233
Deferred income taxes (excluding investment tax credit)	43,449
Investment tax credit	-
Allowance for debt funds used during construction	(4,232)
Allowance for equity funds used during construction	-
Equity earnings from investments	-
Distributions received	-
Gain (loss) on sale of assets	-
Deferred income tax adjustment	-
	452,884
Cash paid for interest, net of amounts capitalized	70,066
Allowance for debt funds used during construction	4,232
Interest expense adjustment	-
Interest on off balance sheet debt	-
	74,298
	527,182
Interest expense, net	60,301
Interest expense adjustment	
Allowance for debt funds used during construction	4,232
Interest on off balance sheet debt	-
	64,533
Funds from operations interest coverage	**8.17**

Funds from operations as a percentage of total debt	
Net income from continuing operations	206,434
Depreciation & amortization	207,233
Deferred income taxes (excluding investment tax credit)	43,449
Investment tax credit	-
Allowance for equity funds used during construction	-
Allowance for debt funds used during construction	(4,232)
Equity earnings from investments	-
Distributions received	-
Gain (loss) on sale of assets	-
Deferred income tax adjustment	-
	452,884
Depreciation adj for operating leases	-
Notes payable (includes commercial paper)	494,000
Current maturities of long-term debt	11
Current portion of capitalized lease obligations	-
Long-term debt	3,701,250
Capitalized lease obligations	-
Total off balance sheet debt	-
	4,195,261
Funds from operations as a percentage of total debt	**11%**

THIS DOCUMENT CONTAINS CONFIDENTIAL INFORMATION NOT AVAILABLE TO THE PUBLIC

VERIFICATION

STATE OF KANSAS)
) **ss:**
COUNTY OF JOHNSON)

The undersigned, upon oath first duly sworn, states that he is the attorney for Kansas Gas Service, a Division of ONE Gas, Inc., that he has read the foregoing *CONFIDENTIAL Annual Compliance Filing*, that he is familiar with the contents thereof, and that the statements contained therein are true and correct to the best of his knowledge and belief.

Robert Elliott Vincent

Affiant

SUBSCRIBED AND SWORN to before me on 5/17/22.

Notary public

My Appointment Expires:

6/5/22

STATE OF KANSAS NOTARY PUBLIC
STEPHANIE FLEMING
My Appointment Expires
June 5, 2022

CERTIFICATE OF SERVICE

I, Robert Elliott Vincent, hereby certify that a copy of the above and foregoing *Compliance Filing* was forwarded this 31st day of May, 2022, addressed to:

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